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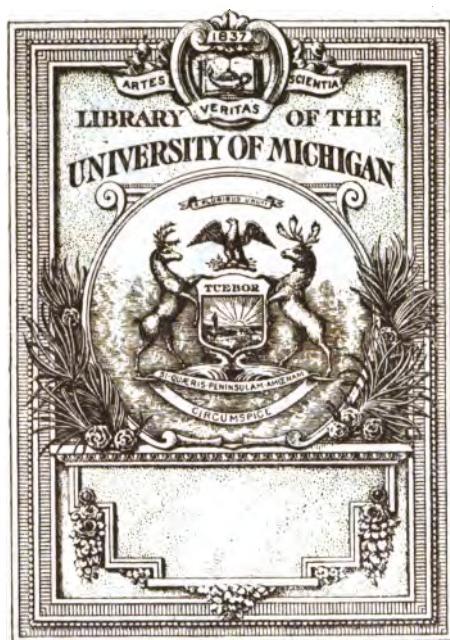
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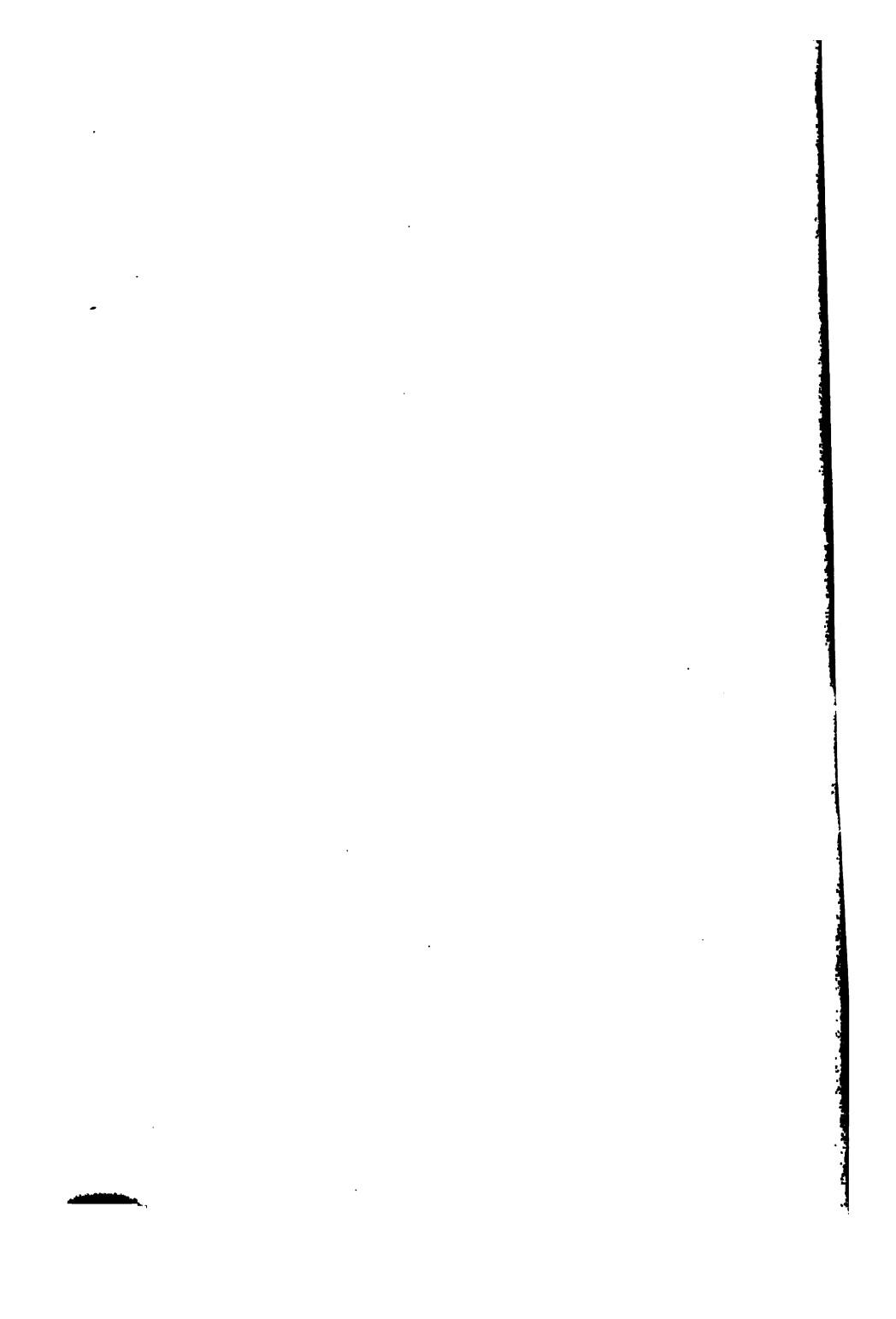
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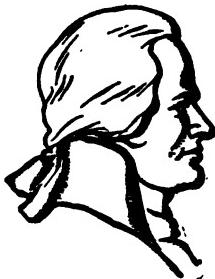
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# **Modern Business**

**A SERIES OF TEXTS PREPARED AS  
PART OF THE MODERN BUSINESS  
COURSE AND SERVICE OF THE  
ALEXANDER HAMILTON  
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**ALEXANDER HAMILTON INSTITUTE  
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# **FOREIGN TRADE AND SHIPPING**

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**MODERN BUSINESS**

**VOLUME 15**

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NEW YORK**

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## PREFACE

This book deals with a subject which, to an exceptional degree, is affected by the European War. It discusses questions which, at present, are foremost in the minds of our statesmen and lawmakers, and which are the center of public discussion. This rendered the task unusually interesting, but at the same time delicate. A text book must contain the latest available information and be up-to-date in its interpretation of conditions and principles, and yet not be too journalistic. This imposes the duty of sifting the lasting good from the chaff of partisan discussion from the mass of contemporary writing on this subject.

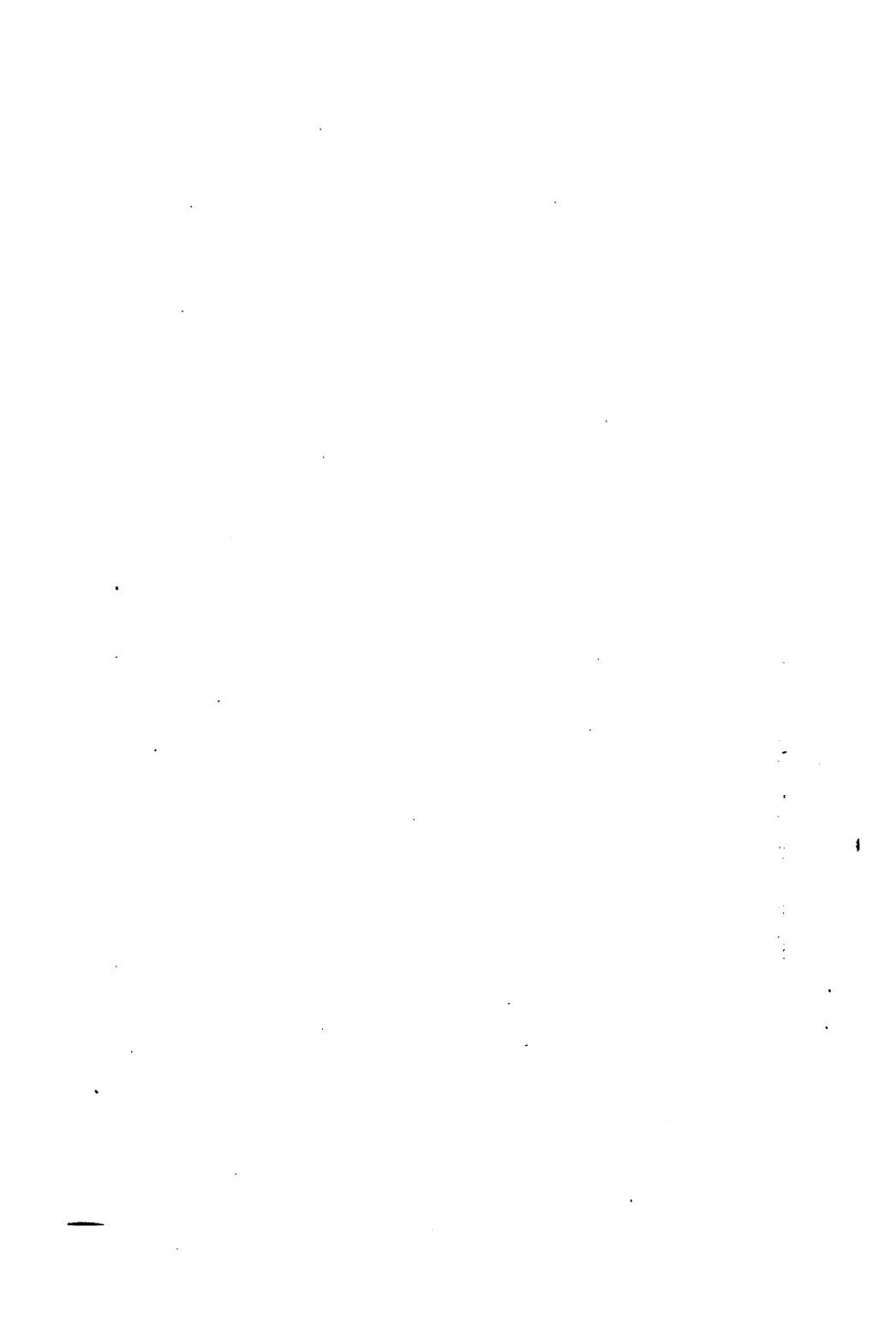
The mass of literature is so extensive that I find it impracticable to mention specific works which have been of assistance in the preparation of this volume without unduly lengthening this preface.

In particular, I wish to express my appreciation of the encouragement, advice, and assistance of my friend, Professor Edwin J. Clapp, in planning and writing this book.

ERICH W. ZIMMERMANN.

University Heights,  
New York, November, 1916.

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## TABLE OF CONTENTS

### PART I—FOREIGN TRADE

#### CHAPTER I

##### A NEW ERA IN AMERICAN BUSINESS

1.	New Tendencies in the Foreign Policy in the United States . . . . .	3
2.	Recent Economic Changes . . . . .	4
3.	Energetic Pursuit of Foreign Trade an Economic Necessity . . . . .	5
4.	Favorable Trade Balance . . . . .	7
5.	Influence of the European War upon Our Exports	7
6.	What Exports Should Be Stimulated? . . . . .	8
7.	Imperative Need for a National Foreign Trade Policy . . . . .	11
8.	Foreign Trade Development Profitable to Our Industries . . . . .	12
9.	Foreign Trade Expansion a Road to National Power . . . . .	13
10.	Present Time Affords Ideal Opportunity for the Expansion of Trade . . . . .	14
11.	Factors That Have Already Aided Foreign Trade Expansion . . . . .	16
12.	What Must Still Be Done . . . . .	17

#### CHAPTER II

##### A TRANSITIONAL STAGE IN CANADIAN TRADE

1.	Former Isolation . . . . .	20
2.	Canada's Commercial Policy . . . . .	21

## FOREIGN TRADE

SECTION	PAGE
3. General Character of Canada's Foreign Trade . . . . .	22
4. Canada Formerly in First Stage . . . . .	23
5. A Sudden Reversal in the Trade Balance . . . . .	24
6. Will the Change Prove Permanent? . . . . .	25
7. Necessity for Increased Production . . . . .	26
8. What Lines of Production Should Be Stimulated? . . . . .	27
9. Manufacturing in Canada . . . . .	30
10. The Present Opportunity . . . . .	31
11. Efforts That Have Been Made to Promote Trade . . . . .	32

## CHAPTER III

### ELEMENTS OF FOREIGN TRADE

1. The Nature of World Trade . . . . .	36
2. Growth of World Trade . . . . .	37
3. Fundamental Causes of International Trade . . . . .	37
4. Differences in the Stage of Economic Development . . . . .	38
5. Differences in Natural Resources . . . . .	39
6. Effect of Natural Resources on the Trend of World Trade . . . . .	40
7. International Coal Trade . . . . .	41
8. Extent and Significance of British Export Coal Trade . . . . .	42
9. German Foreign Trade in Coal . . . . .	43
10. World-Wide Distribution of British Coal . . . . .	43
11. Future of the Coal Trade . . . . .	44
12. Iron Ore . . . . .	44
13. International Grain Trade . . . . .	45
14. The Wheat Trade . . . . .	47
15. Intensive and Extensive Wheat Production . . . . .	49
16. Seasonal Character of the Wheat Trade . . . . .	50
17. Corn Crop . . . . .	51
18. Other Cereals and Starch Foods . . . . .	51
19. Cotton Trade . . . . .	53
20. Tobacco Trade . . . . .	55

## CONTENTS

ix

SECTION	PAGE
21. International Sugar Trade . . . . .	56
22. Brussels Conventions . . . . .	57
23. Coffee . . . . .	58
24. Rubber . . . . .	60

## CHAPTER IV

### OFFICIAL TRADE INFORMATION

1. Intimate Relation of Government and Foreign Trade . . . . .	62
2. Revenues . . . . .	62
3. Shipping . . . . .	63
4. Supervision of Shipping in Canada . . . . .	64
5. Trade Information . . . . .	65
6. Statistical Information . . . . .	66
7. Daily Consular Reports . . . . .	67
8. British Government Aid . . . . .	67
9. General Canadian Trade Information . . . . .	70
10. German Government Service . . . . .	70

## CHAPTER V

### PROMOTION OF FOREIGN TRADE

1. Importance of Education for Foreign Trade . . . . .	73
2. Difficulty of Obtaining Americans for Positions Abroad . . . . .	74
3. Need of Mastering Foreign Languages . . . . .	74
4. Present Efforts . . . . .	76
5. Educational Work of the National City Branch of New York . . . . .	77
6. Canada's Efforts . . . . .	79
7. General Work of the Philadelphia Commercial Museum . . . . .	80
8. Importance of Trade Information . . . . .	82
9. Important Service of Express Companies . . . . .	82

## FOREIGN TRADE

SECTION	PAGE
10. Banks as Sources of Promotion . . . . .	83
11. Foreign Trade Department of the Philadelphia Commercial Museum . . . . .	85
12. The National Foreign Trade Council . . . . .	87
13. Trade Papers . . . . .	87
14. Branch Banks . . . . .	88
15. Federal Reserve Act . . . . .	89
16. Dollar Exchange . . . . .	91
17. Foreign Investments . . . . .	92
18. The American International Corporation . . . . .	93
19. Foreign Branches of Canadian Banks . . . . .	95
20. Canada's Foreign Investments . . . . .	96
21. Railroads and Foreign Trade . . . . .	97

## CHAPTER VI

### METHODS OF EXPORTING

1. Variety of Foreign-Trade Methods . . . . .	99
2. Direct and Indirect Methods . . . . .	100
3. Export Department . . . . .	102
4. Marketing Policies . . . . .	102
5. Branch Houses . . . . .	103
6. Salesmen Abroad . . . . .	103
7. Local Commission Agents . . . . .	104
8. Forwarding Agents . . . . .	106
9. Freight Brokers . . . . .	107
10. Parcel Post . . . . .	107
11. Selling by Mail . . . . .	109
12. Indirect Exporting . . . . .	109
13. Position of the Middleman . . . . .	110
14. Early Merchants Replaced by Agents . . . . .	111
15. Position of Export Commission House . . . . .	112
16. Definition of a Commission House . . . . .	113
17. Commission House as Merchant . . . . .	113

## CONTENTS

xi

SECTION	PAGE
18. Advantages Offered by the Commission House to the Foreign Buyer . . . . .	114
19. Advantages Offered by the Commission House to Exporting Manufacturer . . . . .	116
20. Efforts of the Exporter to Support the Commission House . . . . .	117
21. Relation of the Commission House to the Foreign Agents . . . . .	117
22. Recent Inroads in the Field of the Commission House . . . . .	118
23. New Services of the Export Commission House . . . . .	119
24. Limitation of the Commission House Service . . . . .	119
25. Merchant System; Loaning Capital to Foreign Importers . . . . .	120
26. Manufacturer's Agent . . . . .	122
27. Canadian Practice . . . . .	123
28. Commission Houses in Canadian Trade . . . . .	124

## CHAPTER VII

### COOPERATION IN FOREIGN TRADE

1. Need of Cooperation . . . . .	125
2. European Methods . . . . .	126
3. Isolation of the American Exporter . . . . .	128
4. American Copper Abroad . . . . .	129
5. Prussian Government and German Potash . . . . .	129
6. Smaller Manufacturer Handicapped . . . . .	131
7. Advantages of Cooperation . . . . .	133
8. Various Forms of Cooperation . . . . .	134
9. German Cartels and Syndicates . . . . .	134
10. Strong Export Policies . . . . .	136
11. Greater Necessity for Cooperation After the European War . . . . .	137
12. Recent Attempts to Bring About Cooperation . . . . .	137

## FOREIGN TRADE

SECTION	PAGE
<b>13. International Manufacturers' Sales Company of America . . . . .</b>	<b>138</b>
<b>14. Plan of Mr. W. S. Kies . . . . .</b>	<b>140</b>
<b>15. Legal Status of Cooperative Organizations . . . . .</b>	<b>142</b>
<b>16. Permissive Legislation Needed . . . . .</b>	<b>143</b>
<b>17. Objection to Forcing Trade Exemption . . . . .</b>	<b>143</b>
<b>18. Clayton Anti-Trust Law and Foreign Trade . . . . .</b>	<b>144</b>
<b>19. Federal Trade Commission . . . . .</b>	<b>145</b>
<b>20. Webb Bill . . . . .</b>	<b>146</b>
<b>21. The Export Association of Canada . . . . .</b>	<b>147</b>

## CHAPTER VIII

### THE TECHNIC OF EXPORT TRADE

<b>1. Soliciting Indents . . . . .</b>	<b>150</b>
<b>2. Sending Samples . . . . .</b>	<b>150</b>
<b>3. Samples Issued Represent Goods . . . . .</b>	<b>151</b>
<b>4. Price Policy . . . . .</b>	<b>152</b>
<b>5. Details of Quotations . . . . .</b>	<b>153</b>
<b>6. The Indent . . . . .</b>	<b>164</b>
<b>7. Standardizing the Order . . . . .</b>	<b>165</b>
<b>8. Packing for Export . . . . .</b>	<b>167</b>
<b>9. Weights and Measurements . . . . .</b>	<b>169</b>
<b>10. Marking the Goods . . . . .</b>	<b>169</b>
<b>11. Invoicing . . . . .</b>	<b>170</b>
<b>12. Sundry Documents . . . . .</b>	<b>172</b>

## CHAPTER IX

### THE TECHNIC OF EXPORT TRADE (*CONTINUED*)

<b>1. Inland Transportation . . . . .</b>	<b>174</b>
<b>2. "Straight" and "Order" Bills of Lading . . . . .</b>	<b>176</b>
<b>3. "Thru" Bills of Lading . . . . .</b>	<b>176</b>
<b>4. Bills of Lading in Canada . . . . .</b>	<b>177</b>
<b>5. The "London Clause" Charge . . . . .</b>	<b>177</b>
<b>6. Ocean Rates . . . . .</b>	<b>178</b>

## CONTENTS

xiii

SECTION	PAGE
7. Routine of Making the Shipment . . . . .	178
8. Documents . . . . .	179
9. Steamship Bill of Lading . . . . .	184
10. "Foul" and "Clean" Bills of Lading . . . . .	186
11. Consular Services . . . . .	187
12. Certificates of Origin . . . . .	191
13. Other Certificates: Special Regulations . . . . .	191

## PART II—SHIPPING

### CHAPTER I

#### ELEMENTS OF OCEAN TRANSPORTATION

1. Freedom of the Seas an International Law . . . . .	195
2. British Statement at the Hague Conference . . . . .	196
3. Interest of the United States . . . . .	198
4. Freedom of the Seas and Economic Law . . . . .	198
5. Reasons for Difference Between Land and Water Transportation . . . . .	199
6. Guarantees of the Freedom of the Sea . . . . .	200
7. Tonnage Definitions and Tonnage Ratios . . . . .	201
8. First Proposals of a Uniform Method of Measuring Vessels . . . . .	202
9. Moorsom System . . . . .	203
10. Freight Charges and Kinds of Tons . . . . .	205
11. Computing Net Tonnage from Gross Tonnage . . . . .	206
12. Cargo Space and Dead-weight Capacity . . . . .	207
13. Ship-Inspection and Registration . . . . .	207
14. Regulations Governing the Manifest . . . . .	211

### CHAPTER II

#### OCEAN CARRIERS

1. Ship Development . . . . .	213
2. Causes of Growth . . . . .	214

## FOREIGN TRADE

SECTION	PAGE
3. Steam and Sail Tonnage . . . . .	215
4. Oil-Burning Vessels . . . . .	217
5. Future of the Sailing Ship . . . . .	218
6. Replacement of Wooden by Iron and Steel Vessels	219
7. Classification of Merchant Fleet in Regard to Service . . . . .	219
8. Tramp Distinguished from Liner . . . . .	220
9. Construction of Tramp Steamer . . . . .	222
10. Economics of the Tramp . . . . .	223
11. Occupation of the Tramp . . . . .	223
12. Legal Status of the Tramp . . . . .	224
13. Operation and Management of Liners . . . . .	225

## CHAPTER III

### PUBLIC AND PRIVATE CARRIERS

1. Epoch of the Merchant Carrier . . . . .	228
2. Coming of the Public Carrier . . . . .	229
3. Renaissance of the Private Carrier . . . . .	230
4. Examples of Private Carriers . . . . .	231
5. United Fruit Company and the Banana Trade . . . . .	232
6. Coal and Petroleum Carried by Private Lines . . . . .	233
7. Merchants' Private Lines . . . . .	234
8. Pacific Ocean and the Railroad-Steamship Line . . . . .	235
9. Foreign Railroad-Steamship Lines . . . . .	236

## CHAPTER IV

### OCEAN FREIGHT SERVICE

1. Growth of Sea-borne Trade . . . . .	238
2. Evolution of the Freight Service . . . . .	240
3. Berth Traffic . . . . .	241
4. Line Traffic . . . . .	242
5. Modern Charter Market . . . . .	242
6. Operation of Charter Business . . . . .	243

## CONTENTS

xv

SECTION	PAGE
7. Port of Destination . . . . .	245
8. Ship Brokers . . . . .	247
9. Charter Parties . . . . .	247
10. Operation of Line Traffic . . . . .	248
11. Seaboard Brokers . . . . .	249
12. Cost of Employing Forwarding Houses . . . . .	249
13. Steamship Agents . . . . .	250

## CHAPTER V

### OCEAN FREIGHT RATES

1. Charter and Liner Rates . . . . .	253
2. Causes of Low Charges of Water Transportation	254
3. Rate Fluctuation . . . . .	256
4. Conditions Affecting Rates . . . . .	258
5. Rate Basis not Cost of Operation . . . . .	260
6. Knot Time . . . . .	261
7. Competition . . . . .	262
8. Load Factors . . . . .	263
9. British Coal Exports and World Charter Rate	264
10. United States Coal Exports . . . . .	265
11. Triangular Voyages . . . . .	266
12. Mixed Cargo as a Rate-Making Factor . . . . .	267
13. Rate Quotations . . . . .	268
14. Effect of Tramps on Line Rates . . . . .	269
15. Rates and the European War . . . . .	270

## CHAPTER VI

### STEAMSHIP AGREEMENTS

1. Regulated Versus Wild Competition . . . . .	273
2. Government Investigation . . . . .	273
3. Tramp Vessel Combinations . . . . .	274
4. Examples of Charter Vessel Combinations . . . . .	275
5. Liner Cooperation . . . . .	276

## FOREIGN TRADE

SECTION	PAGE
6. Agreement in United States Trade . . . . .	277
7. Important Ship Combinations in United States . . . . .	279
8. South American Trade . . . . .	279
9. Conferences and Pools . . . . .	280
10. Administration of Pools . . . . .	281
11. Immigrant Traffic Pools . . . . .	282
12. Conference Advantages to Shippers . . . . .	282
13. Rate Charges and Rate Wars . . . . .	283
14. General Advantages . . . . .	284
15. Shippers' Objections to Combinations . . . . .	286
16. New Lines . . . . .	287
17. Combinations Among Steamship Lines in the Canadian Trade . . . . .	288
18. Evidence Before Commission of Investigation . . . . .	289

## CHAPTER VII

### PORTS AND TERMINALS

1. Nature and Function of a Port . . . . .	290
2. Value of Seaport to Community and "Hinterland" . . . . .	291
3. Four Classes of Ports . . . . .	292
4. New York's Predominance . . . . .	294
5. New York's "Hinterland" . . . . .	295
6. Railroad-Steamship Lines . . . . .	296
7. Charter Traffic in Atlantic Seaports . . . . .	297
8. "Entrepot" or Transshipment Trade . . . . .	298
9. Lack of Transshipment Trade at New York . . . . .	299
10. British Raw Materials . . . . .	300
11. Free Ports . . . . .	301
12. Rail and Water Coordination of Carriers . . . . .	303
13. American International Terminal Corporation . . . . .	303
14. Canada's Leading Summer Port: Montreal . . . . .	305
15. Montreal's Hinterland . . . . .	305
16. Canadian Pacific and Grand Trunk Railways . . . . .	306

## CONTENTS

xvii

SECTION	PAGE
17. Coordination of Rail and Water Services at Montreal . . . . .	306
18. Traffic to and from Montreal . . . . .	307
19. Canadian Pacific Ports . . . . .	307
20. St. Johns and Halifax . . . . .	308

## CHAPTER VIII

### STATUS OF AMERICAN MERCHANT MARINE AND RECENT LEGISLATION

1. Present Rôle of American Shipping . . . . .	310
2. Coastwise Tonnage . . . . .	310
3. Merchant Marine a National Question . . . . .	311
4. Beginning of Our Merchant Marine . . . . .	311
5. Development of Shipping Checked . . . . .	312
6. Shipping Begins to Decline . . . . .	313
7. Recent Tendencies . . . . .	313
8. American Merchant Marine Compared to Others . . . . .	314
9. United States' Steam Foreign Trade . . . . .	315
10. Awakening Interest . . . . .	316
11. Adverse Economic Conditions . . . . .	317
12. Congressional Attempts to Aid . . . . .	317
13. New Conditions Caused by the European War . . . . .	318
14. Ship Purchase Bill . . . . .	321
15. Seamen's Law . . . . .	322
16. Loss of Pacific Trade . . . . .	323
17. Purchase of the Pacific Mail . . . . .	324
18. Status on the Atlantic . . . . .	325
19. British Restrictions . . . . .	326

## CHAPTER IX

### FUTURE OF AMERICAN AND CANADIAN SHIPPING

1. Value of a Merchant Marine . . . . .	328
2. Three Means of Solving Question of Merchant Marine . . . . .	328

## FOREIGN TRADE

SECTION	PAGE
3. Government Ownership . . . . .	329
4. Revival of Private Initiative . . . . .	330
5. Hindrances to Private Initiative . . . . .	330
6. Efficiency of Government Ownership . . . . .	331
7. Shipping Board . . . . .	332
8. Cost Investigation by Board . . . . .	333
9. Regulatory Powers . . . . .	334
10. Value of Board . . . . .	335
11. Advantages and Disadvantages of Subsidies . . . . .	335
12. Merchant Marine Essential . . . . .	337
13. American Preference for Inland Occupation . . . . .	337
14. Risks and Profits of Steamship Business . . . . .	338
15. Public Opinion . . . . .	339
16. Present Rôle of Canadian Shipping . . . . .	340
17. The Lake Fleet . . . . .	340
18. Seagoing Coasting Trade . . . . .	342
19. Dry Docks and Dry Dock Subsidy Policy . . . . .	343
20. Another Form of Government Aid . . . . .	344
21. Discrimination Against a Canadian Marine . . . . .	345
22. Proposals of the Dominion Government . . . . .	346
23. Suggested Form of Government Aid . . . . .	346
24. Other Proposals . . . . .	347

**PART I**  
**FOREIGN TRADE**



# FOREIGN TRADE

## CHAPTER I

### A NEW ERA IN AMERICAN BUSINESS

1. *New tendencies in the foreign policy of the United States.*—Washington, in delivering his farewell address, laid down the basis of the foreign policy that this nation was to follow for almost a century, when he uttered the following words:

The great rule of conduct for us in regard to foreign nations is, in extending our commercial relations, to have with them as little political connection as possible. So far as we have already formed engagements, let them be fulfilled with perfect good faith. Here let us stop.

This sentiment was the keynote of all the foreign relations of the United States until the time when the fortunes of war transferred to us the Spanish colonies. The Monroe Doctrine was largely an expression of our desire not to become entangled in foreign affairs. The thought that international matters concerned Europe only, and not ourselves, has long lingered in the public mind, and probably is largely responsible, even today, for the attitude of the average American toward foreign commerce. To him, foreign trade is somewhat in

the nature of a venture, individual in character, and the idea of an organized national policy in foreign commerce is new to him. It is important to remember that there was a strong economic basis for this provincial attitude of mind. Vast unexploited resources in the United States that promise the yield of large profits caused the American to concentrate on a domestic policy.

2. *Recent economic changes.*—While this mental attitude of the people has undergone little change, a new order of things has been brought about by the growth of knowledge and skill and by the progress of invention. Hardly a century ago foreign commerce was confined to dealings in a small range of articles. Today it has burst these bounds. The multiplication and modernization of the means of transportation have enormously reduced the cost of carriage. Modern transportation supplied the means, just as the enormous output of machine production supplied the incentive, for distributing over the world the products of the wealth and labor of every country.

The great European war has taught us how the commercial interdependence of nations reacts upon their political relationships. The time of Washington is not our time, the domestic past must give way to an international future. The world is no longer patient with passive onlookers. It recognizes only active workers. Just as England had to give up her long-cherished policy of "splendid isolation," just as Bismarck's conception that Germany's interests were

bound by the borders of Europe, was superseded by the slogan "Germany's future lies upon the water," just so this country is being drawn into the whirlpool of world politics, because it has been drawn into the circle of world trade.

*3. Energetic pursuit of foreign trade an economic necessity.*—To be sure, this country for many decades past, has been engaged in foreign trade. Even before the European war, the volume of our exports and imports had reached astounding figures, altho our foreign trade was small in proportion to our domestic commerce. Our exports consisted largely of food-stuffs and raw materials—commodities which practically market themselves. The considerable increase during recent years in the export of manufactured goods has been largely the result of the splendid pioneer work of a few large corporations that have been for many years building up their trade in foreign markets with energy and intelligence. Not until recently, however, has it been recognized that it is necessary for the nation to enter into competition on a large scale for the markets of the world, and to sell in those markets, not the wealth of our soil before American labor has been added to it in any form whatever, but the products of American industries. The time has come when we must realize that it is wiser, from a national standpoint, to export flour rather than wheat, cotton goods rather than raw cotton, electrical appliances rather than copper in its crude state. We sell at 12 cents a pound cotton that represents hardly any

labor, and buy it back from the thrifty Swiss at \$40 a pound in the form of fine handkerchiefs—which represent little except labor. This country has today reached a point in its economic development where the systematic and energetic promotion of the export of manufactured products is an absolute necessity, a prerequisite of further growth along sound lines.

It is only right to give reasons for such a statement. History furnishes the first reason. Every young and developing nation passes thru four stages of evolution. At first it has to rely upon the import of machinery and other manufactured goods for the development of its natural resources. Since it is unable to pay for this foreign capital brought in on credit for the purpose of exploiting its resources, it becomes indebted to other countries for the amount by which the value of its imports exceeds the value of its exports. As the development of the land proceeds, and increasing quantities of raw materials, grains, meats and the more valuable minerals are exported, the country gradually gains a position where it is able to pay in the form of commodities, not only money for its imported goods but also interest on foreign obligations and for services rendered by foreign shipping companies, bankers and insurance companies. The transition from this second phase to the third is almost imperceptible. It consists in a further increase of the export surplus to a point where not only all obligations to foreign nations are met, but the indebtedness to foreign capital is reduced. The fourth stage

is that already reached by the great manufacturing nations of Europe, which have passed the debtor stage and have succeeded in reversing their positions and have become creditors. Again, just as in the first phase of evolution, the imports exceed exports, now—not as a result of borrowings but of lendings—the excess of imports over exports represents largely the payment of interest on capital invested in foreign countries. In economic terms, the typical historical development is this: The unfavorable trade balance of the first period is reversed in the second to a favorable one. The third stage represents merely an intensification of the conditions of the second, while during the fourth a return to the unfavorable trade balance takes place.

4. *Favorable trade balance.*—When we speak of favorable trade balance, we refer to that state of a country's foreign trade in which the value of its exports exceeds that of its imports. Such a trade balance which is confined to the visible trade is really fictitious. The exchange of commodities forms only a part of the commercial relationship of one nation with another. The services of bankers, carriers, insurers and investors are the invisible exports that largely pay for the imports of commodities. The indebtedness incurred by tourists abroad, and the remittance of money to relatives and friends in other countries, is another factor which has a strong bearing upon the true balance of international obligations.

5. *Influence of the European war upon our exports.*

—The existence of a “favorable trade balance” for any length of time, is a myth. Foreign trade is really barter, and if we do not receive commodities in payment for our exports, we are sure to receive other forms of value. It has been stated that the “favorable trade balance” of this country, amounting in normal times to a half billion dollars, does not suffice as a means by which to meet our annually recurring payments abroad, of which the chief are caused by tourists’ expenditures, remittances to friends, freight payments for ocean transportation, and interest on American securities held abroad. Accordingly, the actual balance of our international payments in normal times is said to be really unfavorable to us. Thus, before the European war, we were still in the second stage of economic development. The extraordinary conditions caused by the war have increased to more than two billion dollars per year, the excess value of our exports over our imports. This condition has advanced us into the third stage; that is, it has placed us in a position where we have begun to reduce our foreign indebtedness. And indications point to the probability that we are rapidly approaching the fourth stage, that of a creditor nation.

6. *What exports should be stimulated?*—If we wish to derive lasting benefit from these conditions—to shake off once for all our dependence upon European capital, and to become permanently a creditor nation, we must continue to increase our exports not only of commodities but also of services and of capital.

We must, therefore, enlarge the services of our bankers, our merchant marine and develop our insurance business. Before we can export capital on a large scale, we must first accumulate so much capital that we can spare some of it for exportation to foreign countries without depriving our domestic business of the means necessary for its development.

What shall be the commodities the export of which we must stimulate systematically and energetically? In the past, foodstuffs and raw materials formed the bulk of our exports. It is true that manufactured products now play a more important part in our export trade than formerly; thirty-five years ago manufactures constituted only 15 per cent of our total exports, whereas they now amount to almost one-half. But even today the export of manufactures which embody a high percentage of high-class labor is relatively small, by no means as great as it should be considering the vast resources from which the industries of this country can draw their supply. The proportion of manufactures to exports is very much less in this country than it is in Great Britain and Germany.

In the past, we were justified in exporting mainly foodstuffs and crude, or semi-crude, materials. A country naturally exports those commodities in the production of which it enjoys a relative advantage over other countries. It exports those things which are low in price within its borders, because in producing them it has an advantage over other countries in

regard to some of the prime factors of production: land, labor, capital, transportation facilities, and a fifth factor, which is a composite of business acumen, spirit of enterprise, organizing ability and the inventive power. In the early stages of the economic development of a country the land factor is of primary importance; capital, at that stage, is insignificant, and only in the later periods, when there is intensive industrialization, does labor (i.e., highly skilled labor) enter into the productive process. The rapid growth of our wheat exports during the past century was due to the advantage which we enjoyed over the European farmer in our vast tracts of new and fertile land. Later on, the extensive application of agricultural machinery and cheap transportation became decisive aids in our quest for the world's markets.

It is economically sound for us to export raw cotton, in exchange for German chemicals, so long as the cost of producing a bale of cotton in the United States is less than would be the cost of producing in the United States the chemical which Germany is willing to send in exchange for that bale of cotton. But the increasing industrialization of this country tends to eliminate more and more the basic differences between the economic structure of this country and that of the countries of Europe. The rapid growth of the city population, with which our agricultural development has not kept pace, has reduced the surplus of food stuffs available for export, and brought us near to the point where the importation of food stuffs will be a

necessity, and where our food supply, instead of being a resource, will constitute a serious problem. The industrialization of vast sections of the United States increases both the possibility and the necessity of protecting our national resources, and of exporting them only after a considerable amount of labor has been added. Finally, the industrial development of this country resulting from the European war, has given us a productive capacity that cannot possibly be utilized unless we extend our exports of manufactures.

*7. Imperative need for a national foreign trade policy.*—These considerations serve to show that the advantage of our great natural resources cannot take the place of those to be derived from increasing our exports. The systematic development of the exportation of manufactured products becomes imperative as a national policy.

Up to this time, a definite national foreign-trade policy has not been necessary. We may say that our foreign trade of the past sprang up spontaneously because of the variety, richness and abundance of our natural resources. It was largely a non-competitive trade. The market was there. The goods sold themselves. Our trade was mainly with Europe and it flourished simply because we produced things that were different from those produced over there. But now that manufactured products are to move into the foreground, our production will cease merely to supplement that of Europe. The trade relations that now exist between the two continents will be largely

superseded by an intensive rivalry in competitive markets in foreign lands, such as South America and the Far East.

All this does not mean, however, that we must plunge into unprofitable ventures, individually, merely because our doing so might be advantageous for the country as a whole. It would be senseless to advocate a foreign trade policy whose realization would be a burden on those who would have to carry it out.

*8. Foreign trade development profitable to our industries.*—The systematic development of the exportation of our industrial products would prove profitable to our manufacturers. It would bring a more steady and continuous prosperity to our industries. In the words of Secretary William C. Redfield, of the Department of Commerce:

We have learned the lesson that our factories are so large that their output at full time is greater than America's markets can continuously and regularly absorb; we know now that if we will run full time all the time, we must do it by reason of the orders we take from lands beyond the sea. To do less than that means homes in America in which the husbands are without work; it means factories that are shut down part of the time. And because the markets of the world are greater and steadier than the markets of any one country can be, and because we are strong, we are going to go out into the markets of the world and get our share.

Additional orders from any source tend to reduce the overhead expenses of production, and tend also to reduce the cost of raw materials by increasing the quantity bought. All the advantages of large-scale

production come into play when these extra orders are received. In normal times the production of the factories of the country could be increased 25 per cent if those factories were run to full capacity. Moreover, this last 25 per cent that would bring full capacity, could be gained at a much lower proportionate unit cost than the first 75 per cent.

Increased orders from foreign countries tend to change the seasonal demands to year-round demands. Few people realize the great advantage that the manufacturer derives when he possesses a market for his products in the southern hemisphere, where the seasons are exactly the reverse of our own.

The business man who recalls the panics of 1893 and 1907 knows the effect that a domestic business crisis produces upon his organization. A well-balanced export trade of 25 per cent of his domestic business would have carried almost any manufacturer of branded products thru these periods of domestic panic without serious loss.

Mr. James A. Farrell, President of the United States Steel Corporation, has expressed his view on this matter in the following words:

No issue is of more vital importance to the welfare of American industrial enterprises and labor than the stimulation of our commerce abroad. It is a recognized fact that extensive trade over the seas tends to stabilize industry by insuring to manufacturers and producers a larger sphere of activity.

*9. Foreign trade expansion a road to national*

*power.*—Great results may follow an expansion of our foreign trade. In this connection Senator Oscar W. Underwood, is quoted as follows:

The benefits which may flow from foreign trade are not confined to those of pecuniary appeal to private capital and individual initiative. In a nation, commercial and industrial relations may often be justified in terms of national power and security. An aggressive foreign policy is an essential of defensive nationalism for the United States.

The nations of the world are no longer concerned with military aggrandizement so much as they are with commercial prestige. The contest today is for supremacy of trade in the world's markets, because that country which is a power in the field of commerce is a power in other fields also. Sir Walter Raleigh once said that "the nation which controls the sea controls trade, and that the nation which controls trade controls the world."

It follows that in carrying on foreign trade, men must think in terms of national competition. In China and South America the contest is not so much between individual corporations as it is between national industries. So the merchant or manufacturer who exerts his energy and wit to promote foreign trade serves his own interests, and at the same time contributes his share toward enlarging the political influence and prestige of his country abroad. He should go into foreign markets not merely as one who expects to reap a harvest, but also as one who is sowing the seed of good-will from which his country

will benefit. In short, the business man who goes into foreign markets should feel that he is a representative of the highest ideals of his nation.

10. *Present time affords ideal opportunity for the expansion of foreign trade.*—Thus, from both within and without there comes to America the call to expand its sphere of activity in foreign lands. Not only has the time come when it seems both expedient and necessary to stimulate this development; but Providence has seemed to favor this step by removing impediments and aiding our efforts.

Several great events have recently occurred in this country which, altho they are not all primarily related to the development of foreign trade, have a most beneficial influence upon it. These are: The completion of the Panama Canal; the recent development of the American shipbuilding industry and of the American merchant marine; the passing of the Federal Reserve Law; and in a more indirect way, the establishing of the Federal Trade Commission. The opening of the Panama Canal has brought large markets nearer to the producing centers of this country, thus placing the American manufacturer on a more favorable basis in relation to his foreign competitors. The development of the shipbuilding industry and of our merchant marine promises to increase the number of ocean carriers available to us. The Federal Reserve Law extends the activities of national banks to other lands, and grants to the American exporter the support of his own banks, placing him on a par with his foreign

competitors. Finally, the establishment of the Federal Trade Commission bids fair to remove from our foreign trade the fetters that restrictive legislation has imposed upon it. The Federal Trade Commission has fathered the Webb Exporting Bill, which seeks to allow our merchants to combine in the promotion of export trade.

Then came the great European war. A prominent banker has thus described the influence it has had upon the United States:

It opened to this country the great opportunity—not to dispossess and occupy the places left temporarily vacant by our warring brethren across the sea, but the opportunity to complete and establish permanently the institutions and principles requisite for foreign commerce. Half the trade of the world has, temporarily at least, been cut loose from its moorings. The amazing circumstance of much of South America with no buyer for its products, or no facilities for their financing and shipment, and the enormous German trade of Russia suddenly offered to the new world, has awakened the imagination of this country. The half-time laborer in the idle mill, noting the feverish activity in a neighboring plant working on an export contract, begins to see the significance of foreign commerce to domestic affairs. No situation could be more favorable for bringing about a full recognition and understanding of not only the necessity for foreign trade, but the opportunity in foreign trade; for breaking down the distinctions between foreign trade and domestic trade existing in the public mind; for the establishment of a strong constructive national policy which shall require that no product be sold abroad which has not first been brought to the highest state of manufacture, a policy which shall solidly support merchants, manufacturers and government policies to that end.

*11. Factors that have already aided foreign-trade expansion.*—The American Government is keenly eager to further this policy. The Shipping Bill, the Webb Export Bill, the Pan-American Financial Conference, and the work of the International High Commission, simply serve to illustrate the manifold ways in which Washington is trying to aid the new movement. Business also is beginning to realize the value of the opportunity. Merchants' and manufacturers' associations, boards of trade, and chambers of commerce are giving their fullest attention to the problem of the expansion of our foreign trade. The creation of the National Foreign Trade Council, and the organization of the American International Corporation, the Latin-American Development Company, and others, as well as the establishment of foreign branches of national banks, are unmistakable signs of a new era in the foreign trade of this country, and of a new day in the development of American business.

*12. What must still be done.*—And yet, only a beginning has been made. Before the potential trade possibilities have been turned into actual achievement, much prejudice must be overcome, many a lesson must be learned, much information of a reliable and useful character must be disseminated. Modern business is a science. This is true in general, but it is especially true as regards foreign trade. Careful calculation, scientific methods of accounting, a more thoro study of all conditions—geographic, economic, social, legal —bearing upon the business possibilities in foreign

markets; all these are prerequisites of success. But if this country wishes to avail itself fully of its opportunity, it must realize that the task ahead is difficult—difficult because of the strength of our competitors, temporarily absent, who were long ago intrenched in these markets; difficult also, because of the complexity of the problems of foreign trade.

It is true that the United States enjoys valuable advantages that none of its competitors possess, because of its unequalled supplies of cheap food and of raw materials, and because of the vast protected home market, which furnishes a basis for manufacturing on a large scale. This last factor has reduced overhead expense to such an extent that the handicap of high labor cost is largely offset.

But our merchants are still in a large degree untrained and inexperienced in the customs and methods of foreign trade. The uncertainty of the legal status of foreign commercial activities prevents the use of the most efficient method of handling of our export trade—namely, cooperation. Mr. Frank A. Vanderlip, president of the National City Bank of New York, says: "We are a nation of amateurs in the drafting of commercial treaties." And especially, we lack as yet a national commercial policy similar to the policies possessed by our most formidable competitors.

Success in foreign trade depends upon the seriousness with which a nation is willing to enter unaccustomed fields, and to take risks with which it is not familiar. Success depends upon the nation's

readiness to adapt itself to the requirements of various markets; upon the willingness of its investors to prepare the path of its trade; upon its enthusiasm, its sense of fair play and its vision. In the last analysis, a nation's success in this field depends upon the economic power that it can exert in the world markets, and upon the national power supporting it. Mr. Frank A. Vanderlip expresses himself as follows on this subject:<sup>1</sup>

We will hold but loosely that trade which we attempt to grasp not because we can hold it with true economic force, but because for the moment, our competitors are placed at a disadvantage . . .

#### REVIEW

Describe the traditional attitude of the American citizen and American business man towards foreign affairs and foreign trade. What was the reason for this attitude, and what forces have in recent years tended to modify it?

Explain the four stages of economic development which are reflected in the visible balance of trade with foreign countries.

Compare present conditions in American export trade with those of a generation ago. Why do recent tendencies impose new obligations?

If the European war has greatly stimulated our production capacity, how can this increased output be maintained when the war closes?

Note the ten recent tendencies of our foreign trade, and enumerate the various facts and agencies which may be important in promoting the export of manufactured products.

<sup>1</sup> *The Americas*, February, 1916.

## CHAPTER II

### A TRANSITION STAGE IN CANADIAN TRADE

1. *Former isolation.*—Canada in the early years of her nationhood had no paternal Washington to lay down for her a policy of politico-commercial isolation, but from other sources decrees just as imperative went forth. The result has been that while the United States manufacturers as a class are still novices in the ways of foreign trade, Canadian manufacturers are even more amateurish. The youthfulness of the nation, a high tariff centering interests at home, a lack of confidence in the ability to compete with highly-specialized corporations of the United States and the existence of certain manufacturing disadvantage in Canada are among the factors that explain the former absorption of Canadian manufacturers in the sheltered home market, and their timidity in venturing forth upon the ocean of the world trade. The typical attitude is illustrated by the oft-heard words:—"Why should I bother with the trouble and risk of trading with the ends of the earth, when I have a big enough job here at home." As a matter of fact, aside from a few notable exceptions, the Canadians did not take the trouble to concern themselves with foreign markets and thought of them only as possible outlets when the home market was depressed.

2. *Canada's commercial policy.*—It would not of course be correct to say that Canada has not had a national commercial policy. It has had a national policy, characterized by an attempt to retain the home market for domestic manufactures, and for the rest, by an heroic endeavor at whatever cost, to direct national growth along the lines of greatest resistance. The Dominion deliberately set itself to the task of building up a separate nation on the northern half of the Continent and allowed human nature to triumph over the laws of economics and geography which would confine transportation, trade and social existence to lines running north and south instead of east and west as at present. Canadians resolved to cast in their lot with the United Kingdom rather than with the United States, to restrict trade with the latter country lest too close commercial relations might involve political subordination, and to remain an integral part of the British Empire bearing the sacrifices and reaping the rewards that such a connection might bring. So we find the giving of the British Preference in 1899 designed to encourage the flow of trade in Imperial channels, and attempts made more recently by Canadian Ministers to find markets in remote parts of the world. These resulted in the signing of commercial treaties with the British West Indies, France, Italy and a number of other nations. Canada has now an elaborate four-scheduled tariff which, if tariff negotiations can open doors to trade, should prove effective for that purpose.

*3. General character of Canada's foreign trade.*—What has been said already concerning the indifference of manufacturers does not mean that Canada's foreign trade is non-existent or unimportant. On the contrary it has shown in the last twenty years an expansion to which only that of Argentina can compare. Between 1895 and 1914 the total of foreign trade increased over five-fold—from 224 million to 1,180 million, and total exports over four-fold—from 114 million to 479 million.

As in the United States, and to an even greater extent, Canada's export trade consisted largely of foodstuffs and raw materials. The greatest and steadiest growth, moreover, in this twenty-year boom period was in the case of those products which make the least demands on the labor force. Wheat and other grains, forest products, seeds (chiefly flax), flour, cheese, copper, hides and cattle are among the most important items. Of manufactured goods, the greater part of the exports consisted of such commodities as flour, bacon, cheese, canned salmon, wood-pulp and lumber products. These represent the first working up of natural products and are usually classified under farm, sea or forest products. Among the more highly manufactured articles, paper, agricultural implements, automobiles, iron and steel goods, leather, carriages, aluminum, chemicals and cottons go farthest in swelling the export figures.

It is significant that the United Kingdom takes 49 per cent of Canadian exports and sends ordinarily

only about 24 per cent of the imports; that the United States buys 87 per cent of the total exports and sells to Canada over 64 per cent of her imports. This condition exists in spite of the persistent political endeavor to find wider markets and the negotiations of commercial treaties; no other one country counts for 3 per cent of Canada's exports or imports.

4. *Canada formerly in the first stage.*—Previous to 1914 Canada was in the first of those economic stages thru which most countries pass. A young and undeveloped nation, she had been borrowing, especially since 1902, enormous amounts of foreign capital. These loans were primarily to finance the opening up of the "Last Best West," to provide the railways, towns, elevators and other equipment required by the thousands of immigrants who were being attracted to Canada by a spirited immigration policy. The total amount already borrowed for these and other purposes is approximately \$8,725,000,000, of which \$2,914,000,000 came from Great Britain and \$687,000,000 from the United States. When taken in conjunction with the figures for Canadian import trade, this shows that American goods financed the English loans to Canada. In the years immediately preceding the European war, Canada's annual borrowings were roughly \$800,000,000. This was nation-building at an unprecedented rate, and, after 1902, was reflected naturally in a huge and rapidly expanding unfavorable balance of trade. In the calendar year 1913, this excess of imports amounted to \$270,000,000.

Many of the recent criticisms of Canada's profligate borrowing involved certain mercantilistic fallacies. The only important problem was to insure that borrowed capital was being invested so as to result in productive returns. However, the country was soon bound to face the problem of testing the wisdom of the investments by their productivity, and to find some more satisfactory way of paying its interest account than by additional borrowings. In short, the situation facing Canada just before the outbreak of the war was to change from an excess of imports to one of exports and to pass from the first to the second economic stage,—a transition effected in some countries by a slow and silent process, in others by a financial crash.

*5. A sudden reversal in the trade balance.*—In Canada the transition to the second stage was accomplished as if by magic, in two short years. The complete story is clearly told by the following figures for the four calendar years ended in 1916:—

	(Millions of Dollars)			
<i>Merchandise</i>	<i>1913</i>	<i>1914</i>	<i>1915</i>	<i>1916</i>
Imports .....	488	481	451	767
Exports .....	218	428	653	1,112
Unfavorable balance .....	270	53	...	...
Favorable balance .....	...	...	202	345

Such an achievement involved a change in the balance of \$615,000,000 and an increase in exports of 410 per cent in four years.

Canada's annual interest charges are now estimated at \$195,000,000. With her present surplus of exports, she can meet these charges and still have to her credit \$150,000,000. On short time account at least, the war has transformed her from a debtor to a creditor nation. In other ways Canada has recently developed international relations which may have far-reaching effect on her trade position in the early future. Canada is now finding herself financially, finding herself with a variety and independence in capital resources undreamed of before. This augurs well for the future upbuilding of her trade.

6. *Will the change prove permanent?*—Opinions differ as to whether the increased exports and the favorable balance will prove permanent or not. Some fear a slipping back to the old conditions. This much at least is certain. Those who believe that since the trade balance has been reversed and the nation has become a creditor nation on short-time account, Canada will no longer be a borrowing nation but rather will be able to extend her trade by investing considerable capital in foreign countries, are doomed to disappointment. Canada has scarcely reached the third, much less the fourth stage in her national development. The necessity of funding short-term borrowings of the war, of financing the coming railway reorganization, and more importantly, of developing her rich resources, will for many years make Canada a bidder for the world's surplus capital.

As has been stated, the war has revealed domestic

capital resources in unsuspected magnitude. But these, tho probably subject to continuous increase unless, as is not probable, tax burdens prove exhausting, will need to be supplemented from abroad. Great Britain will be drawn upon once more, tho probably on a smaller scale than in the previous boom period. For the rest, resort must be had to Canada's new-found banker, her southern neighbor. Geographical proximity, bringing similarity in commercial needs and methods and facilitating personal investigation; the soundness of Canada's political and financial conditions, especially in contrast with alternative outlets for capital; the stake held already in the country thru emigration of farmers and branch factories; the present extent of trade relations; the appeal of virgin opportunities—these and other forces will inevitably draw to Canada a major portion of the surplus wealth and loaning power which recently has been brought to the United States.

*7. Necessity for increased production.*—Altho Canada may continue to be a borrowing country, she will probably not go back to the first stage of economic evolution. In the first place, the annual loans will probably not be so great as in the record years 1912 and 1913. In the second place, most of the national plant has now reached the paying or productive stage, and the nation is going to gird its loins for a tremendous increase in production. A national attempt marked by greater energy and better organization, by

more cooperation and less state-blindness, to garner the utmost harvest from forest and mine and sea and factory, must and will be made in order to secure a larger share of the home market in certain favorable lines and to build up a surplus of exports at least sufficient to pay the interest charges on accumulated borrowings.

*8. What lines of production should be stimulated?*  
—While there is room for increased production and export in all lines, we would have a wrong perspective if we did not see the predominant importance of primary production. First things must be put first. For Canada, at this stage the foremost requisite is to increase her basic products. As a nation she is justified in concentrating her energies, for the most part, on the export of foodstuffs and crude, or semi-crude materials, for it is chiefly in these lines that her people have a relative advantage over other countries, an advantage due primarily to nature's generosity in the provision of resources. In the score of years just past, huge sums of capital were spent mainly on industrial development of a secondary character, and only a surprisingly small percentage of the total borrowings was devoted directly to the extension and improvement of agriculture, mining, fishing and other primary industries upon which the chief burden of all the investments will ultimately fall. The good result of it, however, is that the country now possesses a national plant for production, almost completely

equipped in such departments as transportation, communication, city development, and other similar facilities.

With this as a foundation Canadian production should go forward rapidly in all lines, especially in the basic industries. In agriculture, in which creditable progress has been made, there is room for almost indefinite expansion. It has been estimated, for instance, on the basis of investigation into actual farming methods conducted by the Commission of Conservation, that thru greater attention to weed control, proper rotation of crops, seed selection and other farm processes, the field crops of Canada could be doubled within twenty years without any addition from the occupation of new lands. The opportunity for and the urgency of building up the live stock industry are unquestioned. In all branches, indeed, of this industry which will remain the industrial backbone of Canada, all that is needed is more men, more capital and more science in order to swell the volume of Canada's exportable surplus.

Equally favorable are the opportunities for increased exploitation of the forests. As the available stand of commercial timber is estimated at from 400 to 700 billion feet, lumbering operations can be greatly extended without endangering the future timber supply. Investigation of available supplies, prevention of fire and other wastes, and the adoption of scientific conservation principles are imperative. In British Columbia, which has an estimated timber stand of

over 300 million feet, it is said that increased exploitation depends largely upon the building up of foreign trade thru better shipping facilities, strong selling organizations and general improvement in the machinery for capturing and retaining foreign business.

In fishing and mining there is the same story of inadequate exploitation today and great possibilities of expansion tomorrow. The increase in the value of the output and export of the fisheries in recent years has been due almost solely to rising prices. But already steps have been taken to improve packing, curing and marketing methods, and in order to still further increase the quota from this source of natural wealth it is only necessary to take well-recognized scientific steps to prevent the impending depletion of certain of the valuable fisheries.

Canadian exports of minerals have not been increasing as rapidly as one would expect judging from the extent and variety of wealth in this respect. This is due to the fact that Canada has been exporting unrefined ores, the value of which is much less than that of the refined product. Recommendations have been made—and steps have actually been taken in the case of nickel, zinc, copper, etc.—to secure domestic refining of Canadian minerals, both for home consumption and for export, and to establish such basic industries as the smelting of all metals, the manufacture of nitric and sulphuric acid and of nitrogen products from the air, the by-product coking of coal, etc. These are really manufacturing industries and

the considerations suggested in the next following section will be applicable.

In his annual address the president of the Bank of Montreal, said that there were three objects to which Canadians should bend every effort if they were not to slip back into pre-war conditions—economy, production and immigration. Add to these conservation or scientific utilization, and provision of marketing facilities, and you will have in a nutshell the forces which will determine, and the only forces which need limit Canada's export trade in so far as natural products are concerned.

9. *Manufacturing in Canada.*—As explained in the preceding chapter the basic economic principle of national exports is that a nation should export those commodities, in the production of which it enjoys a relative advantage. Canada is not at present able to compete with the great manufacturing nations of the world. There are many commodities on which she has already built up or could build up a successful and permanent export trade. It is to such lines and to such lines only, unless in certain markets preferences are extended which counterbalance extra cost, that Canadian exporters should devote their exclusive attention. Among the goods that Canada should produce on equal terms with the world—or perhaps on even better terms—are certain lines of iron and steel products, agricultural machinery, flour and cereals, paper and pulp, wood and the manufactures thereof, leather goods, wagons and carriages, aluminum,

nickel and nickelware, etc. In some of these lines excellent pioneer work has already been done by a number of the larger Canadian corporations whose success in the foreign field is both a guide to the smaller manufacturers who may follow, and a proof of what Canadian enterprise can do.

10. *The present opportunity.*—In the past relatively little attention in Canada as in the United States needed to be paid to methods and conditions of exporting because by far the major portion of the exports consisted of foodstuffs and raw materials which, owing to the staple world demand, practically market themselves. As Canada, however, attempts to see her manufactured goods in open competition with the rest of the world, the necessity for training and cooperation, for a systematic and energetic campaign, will soon become strikingly apparent.

Leaders in many walks of Canadian life have pointed out the ideal opportunity that is now offered in the export field and the vital necessity of grasping it in time. The way in which Canadian manufacturers responded to the demands of war was a revelation to them of their own power; an indication of what could be accomplished under the spur of great events, even if not an accurate index of what is possible under normal conditions.

Canadian manufacturers have now a better and a larger plant than ever before, one too large in many lines for the requirements of the home market. Altho much of the special war machinery may have to be

scrapped at the end of the war, yet many manufacturers will find themselves with new and up-to-date machinery for ordinary production. They will also find themselves with a skilled force of mechanical workers.

Manufacturers have built up strong export connections. Many of the secrets of exporting have been opened to them; they have become acquainted with foreign markets and in many cases have established relations with foreign importers; many foreign importers have become acquainted with Canada for the first time and have been awakened to the multiplicity and quality of the commodities which the nation can supply. Finally, in the minds of some thinkers the most important advantage will be the preference—either a sentimental one or one of a more substantial kind in the form of tariff favors—which Canada will possess over neutral nations in the markets of the allied countries as a reward for her participation in the war. Already over fifty American companies have expressed their belief in this idea by establishing branch factories in Canada in order to handle their export trade to the markets of the British Empire and the other allied countries.

*11. Efforts that have been made to promote trade.*  
—Many of the progressive business men of Canada have already established export departments in their business so as to be in a position to make a strong bid for business when normal conditions are again restored. An ably-managed and well-organized ex-

port association, the Export Association of Canada, has been formed and is in active operation backed by the Canadian Manufacturers' Association.

Most of the initiative, however, that has so far accomplished results has come from governmental sources. Ottawa is leading the way—the criticisms are constantly made, urging, for instance, that business men should be pushed if they will not lead, and that enough compulsion should be used to make the proposed conference a fact and a success. The department specially concerned has taken a number of good practical steps.

The Minister of Trade and Commerce has proposed to improve the work of his department by the building up of a museum or bureau of commercial information, designed as a clearing-house for commercial and business information in regard to Canada and foreign countries. This bureau would place on permanent exhibit at Ottawa samples of domestic manufactures; samples of goods demanded in foreign markets, which might be made in Canada; samples of goods now imported, which might be made in Canada; and samples of all raw materials, etc., illustrating the natural resources of this country. This promised development is in response to the frequent demands for a Canadian institution analogous to the Commercial Museum of Philadelphia.

Mention should also be made of the work of the Economic and Development Commission which is interested in the extension of foreign trade; of the

Dominions Royal Commission, which has been taking evidence in regard to natural resources and conditions of trade in Canada and throughout the Empire, and which will probably bring results of great value by making known those varied resources and by recommending the removal of obstacles or hampering restrictions on the trade of the Empire. Of interest also is the recently appointed Advisory Council for Scientific and Industrial Research, which will seek to apply the scientific principles of technical research to the industrial and commercial problems of Canada. The importance of this last body cannot be exaggerated, as will readily be recognized by a reading of a list of the larger projects it has already in hand—a comprehensive industrial census; the training and utilization in industrial establishments of "efficiency experts"; the creation of technical laboratories under state cooperation at the great industrial centers to give free help to manufacturers in solving their problems; the provision of scientific research scholarships and the commercial utilization of by-products. Canada cannot afford to be behind any nation in the world in efficiency of production if she is to win her proper place in the fierce race for success in trade which is bound to follow the resumption of normal world conditions.

#### REVIEW

What factors have shaped Canada's present commercial policy?

Account for the attitude of the typical Canadian manufacturer to foreign trade.

In what stage of economic evolution was Canada before the war? Account for the recent changes in trade balance and estimate its significance.

How have Canada's borrowings affected her foreign trade in the past? Estimate the character of this influence in the future.

What lines of production and export should be stimulated in Canada?

Enumerate the steps which have so far been taken to facilitate Canada's export trade.

## CHAPTER III

### ELEMENTS OF FOREIGN TRADE

1. *Nature of world trade.*—It is easy to forget that world-wide trade is a modern phenomenon. Only a hundred years ago the overwhelming majority of people, even in the most advanced countries, lived almost exclusively upon domestic products. Foreign imports were chiefly luxuries; they did not figure in the life of the masses. The man of a hundred years ago was clothed in wool that had never crossed the sea; his house was built of stone broken from a nearby quarry, or of timbers hewn in the neighboring forests. His food, if it was not raised on his own farm or in his own vegetable garden, came from no great distance. All this has changed.

Now the German workman wears garments the raw material for which comes from the cotton fields of Texas or Louisiana. The English laborer serves Australian mutton or Argentine beef on his table. The steel of his knife is made of foreign ore; his tea was grown under the sun of Ceylon; his bread is the product of Canadian wheat.

What was the exception fifty years ago is the rule today. The very necessities of life, even those of the poorest classes, are brought from the most distant

corners of the world. A man's locality used to be his home, his source of supplies and his market. It is so no more. The change has been brought about by the utilization of the great inventions which have revolutionized transportation.

2. *Growth of world trade.*—In 1810 the value of the combined imports and exports of all the leading countries amounted to less than \$5,000,000,000. In 1910 this total had risen to almost \$83,000,000,000. These figures are a measure of the change in the world's international commerce, the shifting from one corner of the globe to another of huge volumes of staple products and of bulk commodities. Instead of the spices of India and the rare luxuries of China, which filled the tiny holds of early sailing vessels, today the cargo of a modern steamer consists of thousands of tons of coal, hundreds of thousands of bushels of wheat, and trainloads of bananas.

3. *Fundamental causes of international trade.*—International commerce is the result of differences between the natural resources of various countries. Because of these differences, it becomes profitable, and sometimes necessary, for nations to exchange their surpluses. But this geographic phenomenon is largely influenced by two important factors—the racial characteristics of peoples, and the respective stages of their economic development.

Racial differences are largely the result of climatic conditions. Along the lines of the various zones of latitude, the human race is divided into classes of

peoples, industrious and non-industrious, intelligent and dull, enterprising and backward. Moreover, among different nations that are in the same latitude and subject to the same climatic conditions, we find racial differences which are due to historical, geological and other causes, differences which strongly affect the development of their economic life. Thus, the French show extraordinary skill and taste in art; the Germans are known for their painstaking thoroughness, for their scientific skill and for their thrift; and the Americans set an example in resourcefulness and keen enterprise.

Racial differences tend to be eliminated, however, as the various nations are thrown into the great melting pot of international trade and commerce. The struggle for the world's markets forces each to adopt the virtues and achievements of its rivals; each tries to learn from the others, and is anxious to adopt whatever customs and methods have proved conducive to success.

*4. Differences in the stage of economic development.*—The efforts to forge ahead causes a constant shifting in rank among the nations of the world, and the more gifted nations come to the top. This evolution radically affects international trade. There is a general tendency toward emancipation from foreign industrial supremacy. Once England was the workshop of the world, but one nation after another, by means of fiscal measures and definite national policies, has freed itself from dependence upon British industries. Germany, France, the United States, and

Japan, have become industrial nations, and even young countries like Canada and Australia have made great sacrifices to build up national industries.

Under the leadership of England, economic writers formerly saw an ideal solution of international relations in the policy of free trade, which meant, to them, the division of the world into agricultural and industrial nations exchanging their surpluses for mutual benefit. But since the middle of the nineteenth century a very different idea, of which the chief advocates are the United States and Germany, has been gaining ground—namely, the idea that the welfare of a nation is best promoted by the largest possible development of all its national resources, irrespective of the fact that, in the beginning at least, it would be cheaper to purchase most manufactured articles abroad. As this viewpoint came to be widely accepted, it was reflected in the fiscal policies of most of the commercial nations of the world which, with the exception of Great Britain, abandoned the old free-trade principles and constructed tariff walls around their respective territories, in order that, so protected, they might be able to develop their natural resources to the largest possible extent. This tendency toward protectionism has lessened the importance exerted by the influence of international differences in economic development, since, when protection is practised, these differences tend to be eliminated.

5. *Differences in natural resources.*—The effect upon international commerce of international differ-

ences in economic development and in racial characteristics is less now than formerly. Therefore, the importance of the fundamental basis of international trade—differences in natural resources—increases. This factor really includes more than the existence of natural resources; it includes also those conditions that make the resources accessible and useful to man—such, for example, as topography, humidity and dryness, temperature, and proximity to navigable streams or to tidewater. The coal fields of China are dormant treasures, useless until railroads are built by means of which the coal may be brought to the seashore. The minette ore of Luxemburg and Lorraine was of little value until the inventions of Thomas and Gilchrist made the process of converting this ore into iron and steel a profitable one. The valley of the Nile multiplied many times in value when the Assuan Dam insured for it the necessary irrigation and freedom from the devastation of floods. The soil of Mesopotamia, perhaps the richest in the world, is buried under desert sand, awaiting the day when modern engineering shall restore the irrigation which Nature has withdrawn.

*6. Effect of natural resources on the trend of world trade.*—The differences between the natural resources of various countries will be the decisive influence in the future development of international trade, and will sooner or later effect a change in the trend of foreign commerce. Today, the trend follows the parallels of latitude; that is to say, it runs from east to west and

not from north to south. This is because today foreign trade is still largely the result of differences between the stages of development of various countries and continents in the Temperate Zone. But the more the process of leveling and assimilation proceeds, the more prominent will become the differences in natural resources and climatic conditions. These natural elements tend to influence trade to move between different zones—that is, north and south. Long after we have ceased shipping wheat to Liverpool and Rotterdam, we shall still be getting coffee from Brazil, hides from Argentine, sugar from Cuba, and wool from South Africa. The quantity of this country's imports from Europe has not grown so rapidly during the last fifty years as the imports of tropical products, like cocoa, coffee, fibers, rubber, indigo, ivory, olive oil, rice, sugar, tea and tobacco. This increase of imports from the tropics will be observed in connection with the most important branches of world trade now to be described.

7. *International coal trade.*—The shipping world judges the importance of commodities by the amount or number transported. According to this standard, coal heads the line of the world's staple commodities. We live in an age of coal and iron and, of the two, coal is the more voluminous and is scattered more profusely over the earth. Great Britain has had, and now has, by far the largest share of the world's coal trade. The proximity of British coal deposits to suitable harbors early indicated to the British coal-producer

his opportunity of widening his market. An anonymous writer of the fifteenth century tells us that even then the exportation of coal was the main cause of the British merchant fleet's existence, and that all other trades were to be considered as merely branches of this trunk. The quality of British coal is such that a ready foreign market for it is assured. It looks as if foresight on the part of Nature were responsible for the fact that the coal produced in the Newcastle region, which lies nearest the Continent of Europe, is most suitable for use in inland industries and for household purposes, as well as for the making of gas; while the coal of South Wales, which is situated on the trade routes between England and the oversea world, is particularly suitable for marine use. It is this coal of South Wales which is distributed to the numerous coaling stations that Great Britain maintains at strategic points in all seas.

*8. Extent and significance of British export coal trade.*—It is not generally realized what an enormous export coal trade Great Britain carries on, or what its value is to the entire economic life of the United Kingdom. In addition to the 80 or 40 million tons of coal, that annually leave the British Isles in the bunker holds of outgoing vessels, Great Britain in normal times exports over 60,000,000 tons of coal every year. In normal times the world's annual exports of wheat and flour amount to about 715,000,000 bushels, or less than 25,000,000 tons. The value of the British coal export trade lies, not so much in its importance as

a source of revenue as it does in its utility as a return cargo to be balanced against the millions of tons of raw materials that converge upon northwestern Europe. A later chapter will deal with this aspect of the question and will also discuss the question of developing American coal exports.

9. *German foreign trade in coal.*—Of late years Germany also has systematically developed her coal-export trade. She has done this in accordance with the far-reaching policy of the Rheinish-Westphalian Coal Syndicate which, thru the port of Rotterdam, now reaches such distant ports as Buenos Ayres and Rio de Janeiro. The considerations that suggested this policy were simple. It seemed advisable for Germany to develop a coal trade that would enable her to be independent of the British supply of bunker coal. Then, too, it was hoped that the price of Argentine wheat could be reduced, by giving the vessels that transported it to Germany, a return cargo from Germany. But the German export coal trade is small compared to the British, and is nearly equalled by the importation of British coal via Hamburg.

10. *World-wide distribution of British coal.*—British coal has a market in nearly every part of the world, tho some of the foreign markets have been contested by foreign products. Japanese and Australian coal is now competing with the British product in the Indian market. The bulk of British coal exports goes to the Continent of Europe, especially to the regions entirely dependent on foreign coal, like Norway and

Sweden, Italy and Spain, Switzerland and Greece. Even France is unable to supply its demand of coal from its own resources.

11. *Future of the coal trade.*—It is impossible to predict the future of the world's coal trade, since one cannot foresee at this time to what extent the present situation will be changed by discoveries of new coal deposits in regions like South America and China. Then, too, the increasing utility of oil as a marine fuel may, in time, entirely change the present situation of the coal trade. So, also, may the development of water power. Within a calculable time there will be an exhaustion of certain coal fields, and the result may be a complete shifting of the source of coal exports.

12. *Iron ore.*—Along with coal, iron ore is the foundation of our present industrial civilization. Because of the small amount of iron ore deposits in some of the countries of the world, it is necessary for others to ship great quantities over the seas. While the iron and steel industries are largely concentrated in the most highly developed nations, ore is found in many backward countries like Cuba, Brazil, Northern Africa and China, countries which have not yet reached the stage necessary for the development of iron and steel manufacture. British iron masters depend largely on the iron ore brought from Bilboa, Spain, and have now under consideration the importation of Chilean ores. The Bethlehem Steel Corporation has already arranged to import ore from Chile. Brazil is getting ready to make large exports of iron

ore thru Victoria. The United States Steel Corporation has bought the famous iron mountain of Durango, Mexico, estimated to contain 300,000,000 tons of iron. The necessity of mixing various qualities of ore in order to produce a desired quality of steel, makes the importation of iron ore necessary even in countries which themselves produce large quantities.

13. *International grain trade.*—Grain which is raised in all parts of the world occupies the second most important position in foreign trade. Of the world's total grain crop, only a relatively small portion is brought to tidewater and shipped from one land to the other. It is a very essential staple product, and is generally raised to be consumed by those who grow it, and by their immediate neighbors. It has come to figure in international trade only as a result of our super-civilization—its crowded cities and deserted fields. For always, as the industrialization of a country proceeds, its land becomes too valuable for agricultural production in competition with the cheap land of colonies or new countries, which specialize in producing foodstuffs and raw materials, and sell in exchange for the manufactures of the industrial nations.

So we find that today over one-tenth of all the cereals are bought and sold in international commerce. More of wheat and barley than of the other cereals is produced for oversea consumption. The following tables show: (1) the world's production of the most important cereals in the year 1913, and the exportation,

in millions of bushels; and (2) the average exports of wheat, corn and oats from the principal surplus-producing countries for the years 1911, 1912 and 1913.

## **WORLD'S PRODUCTION AND EXPORTATION OF LEADING CEREALS**

	Cereal	World Production	World Exports	Per Cent Prod.	Lbs. per Bushel	Exports in mill. tons at \$240 lbs. a ton
Wheat	4,127.4	858.4	20.5	60		22.9
Corn	3,587.4	343.8	9.5	56		8.6
Oats	4,697.4	233.7	4.9	32		3.3
Barley	1,650.3	309.3 <sup>1</sup>	18.7	48		6.6
Rye	1,880.4	114.4	6.1	56		2.8
Total	15,942.9	1,859.6	11.6			44.2

<sup>1</sup> Barley exports also include malt reduced to terms of barley.

AVERAGE EXPORTS OF CORN, WHEAT, OATS AND FLAX-  
SEED OF THE PRINCIPAL SURPLUS-PRODUCING  
COUNTRIES DURING 1911, 1912 AND 1913

Countries	Corn		Wheat		Oats		Flaxseed	
	Million bushels	Per cent of total						
Argentina	189.8	54.9	101.	15.8	52.8	38.	24.5	46.9
Roumania	52.	15.4	54.	8.4	10.	6.8		
United States	47.7	13.9	115.8	18.1	12.6	7.9		
Russia	35.8	10.2	127.4	19.9	65.2	40.8	5.7	11.
Bulgaria	12.2	3.5	12.5	1.9				
Serbia	4.6	1.3						
British So. Africa	2.8	.8						
Canada			111.	17.8	16.6	10.4	4.8	9.1
British India			50.6	9.8			17.2	33
Australia			52.3	8.2				
Austria Hungary,			6.7	1.1				
Chile, Serbia								
Chile					2.5	1.6		

The United States is becoming industrialized so rapidly that it must look upon the exportation of its cereals as only a temporary and transitory part of its development. Nevertheless, today the exportation of cereals plays an important part in our trade, whether it be measured by value or by weight.

14. *The wheat trade.*—The cereal which plays the most important part in international commerce is wheat. The most important wheat-exporting countries are Russia, the Argentine Republic, the United States, Roumania and Canada. In 1870 Russia exported about 62,000,000 bushels, the United States had increased her export to almost 170,000,000 bushels, while that of Russia had decreased to barley 40,000,000 bushels. Later, the Russian exportation of wheat increased rapidly—excepting for a slump about 1900—to a maximum of over 225,000,000 bushels per year, while that of the United States suffered a decline, especially noticeable in 1900, until, in 1910, our export had been reduced to 60,000,000 bushels. The Canadian wheat exports grew slowly until about 1895. From that time on there was a steady increase, from about 9,000,000 bushels, to 158,000,000 in 1916, or an average of 117,000,000 in the last three years. The Argentine grain export trade developed more rapidly. In spite of very modest beginnings, its exports of wheat amounted to more than 100,000,000 bushels in 1918. In the same year the Roumanian wheat exports exceeded those both of

the United States and of Canada, but since then a drop has occurred. Manchuria, whose port is Vladivostock, promises to become an important wheat-exporting country.

There are other countries that export wheat, such as British India and Australia, but, owing to climatic conditions, the wheat exports of those countries fluctuate to such an extent that they have not yet gained an important position as regards the world's wheat trade.

The following table shows the wheat trade and wheat production of the world's most important wheat-exporting countries during the last peace year (1913) :

**WHEAT PRODUCTION AND TRADE OF THE LEADING  
WHEAT IMPORTING AND EXPORTING  
COUNTRIES**

**WHEAT AND FLOUR<sup>1</sup>**

IMPORTING COUNTRIES	Million Bushels		Yield per acre in bu. 1909
	Crop 1913	Imports 1913	
Belgium .....	14.8	69.8	40.0
Brazil .....	...	24.7	...
Brit. So. Africa .....	...	9.4	...
Denmark .....	6.7	8.2	37.8
France .....	321.0	57.7	21.8
Germany .....	171.1	94.5	30.5
Greece .....	7.0	7.0	...
Italy .....	214.4	66.6	16.3
Japan .....	26.9	7.1	20.8
Netherlands .....	5.2	89.5	...
Portugal .....	9.2	6.4	...
Spain .....	112.4	6.4	...
Sweden .....	9.3	7.8	...
Switzerland .....	3.5	21.4	34.2
United Kingdom ...	58.4	227.0	34.3
Other countries .....	...	71.8	...

WHEAT AND FLOUR<sup>1</sup>

EXPORTING COUNTRIES	Million Bushels		Yield per acre in bu. 1909
	Crop 1913	Exports 1913	
Argentina .....	187.4	109.6	10.4
Australia .....	94.9	53.2	12.3
Austria-Hungary .....	232.2	1.7	19.9
Belgium .....	14.8	16.0	(transit 1915)
British India .....	362.7	54.7	10.9
Bulgaria .....	51.3	11.5	12.4
Canada .....	231.7	152.0	21.5
Chile .....	23.6	2.2	...
Germany .....	171.1	29.6	30.5
Netherlands .....	5.2	64.5	(transit)
Roumania .....	83.2	54.2	13.6
Russia .....	838.0	130.6	13.5 (1915)
Serbia .....	10.5	3.7	...
United States .....	763.4	154.8	15.8
Other countries .....	.....	20.2	...

<sup>1</sup> Flour is reduced to terms of grain, where included in these columns, by assuming one barrel of flour to be the product of  $4\frac{1}{2}$  bushels of wheat.

15. *Intensive and extensive wheat production.*—The table just given reveals the great difference in the yield per acre between the various wheat-producing countries. It also clearly shows the difference between the methods of agricultural production used in old and new countries respectively—in other words, the difference between intensive and extensive agriculture. To some extent, also, the difference in the quality of soil enters into the question. Thus the 30.5 bushels per acre raised in Germany are probably the result of more intensive and more scientific farming than the 34.8 bushels raised on the acres of the United Kingdom. The sandy soil of Germany needs a more careful treatment than the relatively more fertile land of the British Isles.

*16. Seasonal character of the wheat trade.*—One of the most important facts of the wheat trade, from the standpoint of shipping, is that the harvest occurs at various periods in the year and in different parts of the world. In this respect, the southern hemisphere complements the northern hemisphere. The seasonal difference in wheat production makes it possible to employ efficiently, the shipping tonnage engaged in carrying the surplus wheat crops of Argentine, the United States, Canada and Australia, to European markets.

**DATES OF WHEAT HARVEST IN VARIOUS COUNTRIES**

January	Australia, New Zealand, Argentine Republic, Chile.
February	India.
March	India, Upper Egypt.
April	Mexico, Cuba, Lower Egypt, Syria, Persia, Asia Minor.
May	Morocco, Algeria and Tunis; the northern parts of Asia Minor, China, Japan, Texas, Florida.
June	The Mediterranean Peninsulas and the South of France, California, Oregon, Utah and the greater part of central and eastern United States territory south of $40^{\circ}$ ; Afghanistan, Japan.
July	France, Austria-Hungary, southern Russia, the northern parts of the United States, Ontario and Quebec.
August	England, Belgium, the Netherlands and Germany; the eastern parts of the Dominion of Canada.
September	Scotland, Sweden, Norway and Russia.
October	Finland, Northern Russia.
November	Peru, South Africa.
December	Burma, South Australia.

The foregoing table shows the months during which the wheat harvest is at its height in various parts of the world. It shows that at any time of the year a cargo of wheat can be obtained somewhere by a vessel seeking to carry it.

17. *Corn crop.*—The most important crop of this country is the corn crop. It is the only grain that the old world owes to the new. Corn was extensively cultivated by the American Indian before the discovery of this country by Columbus. It is a very productive crop and, as a rule, yields twice as much grain to the acre as wheat. The cultivation has spread rapidly in many parts of the tropical zone and in the warmer regions of the temperate zone.

During the year 1913, the world's corn crop amounted to 3,587,400,000 bushels, of which the United States produced almost two-thirds, 2,446,988,000. (In 1915 this country produced 3,054,535,000.) The remainder was distributed largely among Mexico, Argentine and the countries of the Danube Valley. Altho Argentine has only recently begun to grow corn, it at present exports a larger amount than the United States. This fact is shown by the table already given, on page 46.

18. *Other cereals and starch foods.*—As the following table will show, Russia is the largest producer of barley.

Barley, which enters into international commerce only to a very limited extent, is used as a forage crop where corn cannot be grown. It is grown extensively

in Russia, since corn does not thrive there as it does in this country.

**PRODUCT OF BARLEY IN LEADING PRODUCING COUNTRIES**  
(Million bushels)

Country	1913	1914	1915
Russia in Europe	557.6	398.1	475.1
German Empire	168.7	144.1	180.0
Austria-Hungary	162.6	145.3	136.2
Japan	101.6	85.8	93.4
United Kingdom	67.8	66.8	48.7
France	46.1	44.8	36.2
India	41.0	33.8	40.0

In some parts of Asia rice is the main crop, and it constitutes the principal means of subsistence in China and Japan, India, Indo-China and the East Indian Islands. There, both the humid air and the wet soil facilitate its production. But because rice is not moved from one country to another, like wheat, its significance in international trade is small.

The same is true of the potato, which possesses a very important food value, but which figures little in over-sea commerce. The potato is a starch food, and there is only one food of this class that plays an important part in international trade—the banana. This fruit was for a long time exported almost exclusively from the Canary Islands to Great Britain. The development of the West Indies, largely thru the enterprise of the United Fruit Company, has opened a new source of supply for the banana. Improved shipping service and the perfection of the refrigerator

facilities in transportation on land and sea have made it a staple of both American and west European diet. A product which has recently gained considerable importance in connection with the development of international trade is the soy-bean. This product from Manchuria appeared for the first time in European markets in 1908, but it became popular so rapidly that, in the following year, 440,000 tons of soy-beans were shipped thru the Suez Canal. The bean cake is of great value as cattle food, and the oil of the bean is used in the manufacture of soap.

19. *Cotton trade.*—Next to the corn crop, the cotton crop is by far the most important product of the American soil. Cotton is a raw material which, altho it is produced in few regions, is used everywhere. Consequently, a great amount of cotton is transported from one part of the world to another. The United States is by far the most important producer of cotton in the world. Its output represents almost 60 per cent of the world's production. The following table shows the world's cotton production in the three years 1912, 1913 and 1914 of those countries that produce more than 1,000,000 bales annually:

Country	Million bales at 478 pounds a bale net		
	1912	1913	1914
United States	13.7	14.2	16.1
British India	2.8	3.9	4.3
Egypt	1.6	1.6	1.5
Asiatic Russia	1.0	1.1	1.2

Almost all the world's most important cotton-

consuming countries have tried to reduce their dependence upon American cotton. The British Cotton Growers' Association and the Association Cottonnière Coloniale and other organizations were created for this very purpose. Russia, also, has made strenuous efforts to develop the cultivation of cotton within its boundaries.

The largest consumer of cotton is the United States. Great Britain follows far behind. The distribution of cotton consumption among different countries of the world is indicated by the following table:

**WORLDS CONSUMPTION OF COTTON**  
Season of 1914-15

Country	Bales of 500 lbs. net
Total	19,761,000
United States	5,499,000
United Kingdom	3,890,000
Other European Countries	6,250,000
India	1,607,000
Japan	1,400,000
Canada	185,000
All others	1,000,000

The fact that the United States produces over 60 per cent of the world's cotton crop might lead some to think that this country is also the greatest exporter of cotton goods. This is not the case, altho it is true that our cotton spinning industry has grown rapidly. The number of spindles increased from less than four million in 1880, to 31.5 million in 1913; and the value of the product grew from \$61,869,000, in 1860, to \$628,892,000 in 1913.

## ACTIVE COTTON SPINDLES

Area	1914	1900
United States	32,107,000	19,472,000
Cotton-growing states	12,711,000	4,368,000
All other states	19,396,000	15,104,000
United Kingdom	56,300,000	45,500,000
German Empire	11,560,000	8,000,000
Russia	9,160,000	7,500,000
France	7,416,000	5,500,000
Austria-Hungary	4,970,000	3,300,000
Italy	4,620,000	1,940,000
Spain	2,210,000	2,615,000
India	6,500,000	6,945,000
Japan	2,750,000	1,274,000

But the exportation of cotton goods grew slowly—more slowly than that of most of our manufactured exports. The latter increased 150 per cent in thirteen years, but cotton goods increased to only 125 per cent. Even during the European war, we have been so busy manufacturing war supplies that we have neglected to develop our cotton goods exports. It is Great Britain that has absorbed most of Germany's suspended export trade in cotton goods.

20. *Tobacco trade.*—Tobacco is of many varieties and grows in almost every part of the world. It is the "money crop" of wide areas, such as Kentucky and Virginia, where the farmer depends upon the sale of tobacco for his profit, and raises other farm products mainly for the purpose of sustaining himself and his family. The annual output of the United States passed a billion pounds in 1914. This figure represented considerably more than one-third of the world's

total production of 2,600,000,000 pounds at that time. India is the country next in importance. All other countries that raise any considerable quantities of tobacco, such as Russia and Austria-Hungary, fall far below the leaders as regards production.

21. *International sugar trade.*—Sugar is a commodity which not only is of great importance in the life of a nation, but which also plays a significant part in international trade. There are two main sources from which it is obtained; the sugar beet and the sugar cane. These two sources have long been of practically equal importance, but of late it seems cane is assuming the greater significance. In 1913-1914 the world produced only 8,430,145,000 pounds of beet sugar as compared with 11,225,000,000 pounds of cane sugar. Sugar cane is found thru the tropic world, where it serves as a staple food for the natives. Sugar-beet culture owes its existence largely to scientific research, which was first stimulated in this connection by Napoleon. He wished to become independent of the cane-sugar supply, controlled by England, which owned tropical colonies and controlled the seas. The process of extracting sugar from the sugar beet has been rapidly improved during the last century, especially in Germany, which is by far the most important producer of beet sugar. Russia and Austria follow far behind, with only one-half of Germany's production. Altho the United States has given much attention to the development of its beet-

sugar industry, the home crop is far from adequate to supply the demand that exists.

The tables given below show, in pounds, the importation of sugar by the leading sugar-consuming countries, in 1913, the last peace year, and the exports for the same year of the chief sugar-producing countries:

#### SUGAR IMPORTS—1913

United States . . . . .	4,762,014,000
United Kingdom . . . . .	3,872,309,000
British India . . . . .	1,922,009,000
China . . . . .	948,230,000
Japan . . . . .	725,067,000
Canada . . . . .	670,234,000
Turkey . . . . .	445,111,000
Switzerland . . . . .	258,513,000
France . . . . .	253,435,000

#### SUGAR EXPORTS—1913

Cuba . . . . .	5,476,901,000
Dutch East Indies . . . . .	2,823,310,000
Germany . . . . .	2,462,020,000
Austria-Hungary . . . . .	2,368,765,000

(No other country exported more than half a million pounds.)

22. *Brussels conventions.*—The competition of the European sugar with tropical cane sugar caused no little embarrassment to England in the latter part of the last century. On the one hand, England wished to secure the cheapest sugar possible, for its consumption and for its industrial use; on the other

hand, it had to guard the interests of its colonies that produced cane sugar, especially Jamaica and Guiana. Government bounties stimulated the exportation of beet sugar from Germany, France, Russia, Austro-Hungary, Holland and Belgium. Moreover, European refiners, protected in their home market by customs tariffs, dumped their products abroad, and these competed so strongly with Colonial sugar on the English market, and caused such a depression in the sugar-producing colonies, that England decided to interfere. Then, in order to forestall British retaliation, the various governments of the countries exporting beet sugar met with representatives of Great Britain at the so-called Brussels Conventions of 1901-02, which provided for abolition of the bounties, and placed the sugar trade of the world once more on a sound basis.

**23. Coffee.**—By far the most important coffee-producing country is Brazil. Formerly Ceylon and other East Indian territories were among the best producers. The Ceylon plantations, however, suffered irretrievable loss from the damage done by the insect, "Hemleia Vastatrix," while the other producing countries of the Pacific, such as Java, Sumatra and British India, are now falling behind because of soil-exhaustion. In the Brazilian state of Rio, also, the phenomenon of soil-exhaustion is beginning to manifest itself. On the other hand, Venezuela and Central America have prospects of greater coffee production in the near future.

Within Brazil itself a gradual shifting of the center

of coffee production from the state of Rio to that of Santos is taking place.

Coffee is imported into Europe largely thru the four great ports of London, Hamburg, Antwerp and Havre. The Continental ports concentrate their coffee trade in their speculative markets.

The history of the coffee trade, better than that of any other commodity, illustrates the effect of bumper crops upon the market price, and the methods by which the evils of this effect can be eliminated. In 1906, the coffee production of Brazil was so large that the price fell rapidly. To stop this depreciation of the nation's wealth, the representatives of the coffee-producing states of Sao Paolo, Rio de Janeiro and Minas Geraes formed a "Convenium" which, with the aid of the Federal government, carried out the so-called "valorization" of Brazil coffee. The method was simple; seven and one half million sacks out of a total of twenty million (1,200,000 tons) were bought up by the state government with \$15,000,000 borrowed from European bankers. The loan was paid back, interest and capital, with the proceeds of a heavy export tax and a sale of the seven and a half million sacks of coffee bought by the "Convenium." The export duties, together with the withdrawal of over one-third of the crop from the market, effectually restored the price of Brazilian coffee in the world's markets. Thus, in Hamburg the price of "good average Santos" rose from 8¢ a pound, in 1907, to 13.9¢ in 1911.

**24. Rubber.**—The industrial use of rubber began largely with Goodyear's invention of the vulcanizing process in 1842. In this process, the application of sulphur makes rubber weather-proof. Today, great industries are dependent upon this raw material, which is used in everyday life in such forms as rubber shoes, waterproof clothing, automobile tires and electric insulation.

According to statistics published by the Raw Products Company of New York the world's production of rubber for the years 1900 to 1916 inclusive has been as follows:

WORLD'S PRODUCTION OF RUBBER (in tons)

	PLANTATION	BRAZIL	OTHER GRADES	TOTAL	PERCENTAGE OF INCREASE OR DECREASE
1900	4	26,750	27,136	53,886	
1901	5	30,800	24,545	54,886	+ 1.7%
1902	8	28,700	22,632	52,340	- 4.5%
1903	21	31,100	24,829	55,930	+ 6.8%
1904	43	30,000	32,077	62,120	+ 11.0%
1905	145	35,000	27,000	62,145	+ .004%
1906	510	36,000	29,700	66,210	+ 6.5%
1907	1,000	38,000	30,000	69,000	+ 4.2%
1908	1,800	39,000	24,600	65,400	- 5.2%
1909	8,600	42,000	24,000	69,600	+ 6.4%
1910	8,200	40,800	21,500	70,500	+ 1.2%
1911	14,419	37,730	23,000	75,149	+ 6.5%
1912	28,518	43,410	28,000	98,928	+ 31.6%
1913	47,618	39,370	21,452	108,440	+ 9.6%
1914	71,380	37,000	12,000	120,380	+ 11.0%
1915	106,186	37,320	16,625	159,980	+ 32.8%
1916 (est.)	140,000	37,000	17,000	194,000	+ 21.2%

This table shows in a startling way the increase in the production of plantation rubber, which is in marked contrast to the stationary condition of the Brazilian output and to the rapid decrease in the production of African rubber. These figures permit the conclusion that wild Para (i.e., Brazil) rubber from

the Amazon regions and Congo rubber will be largely replaced by the product of plantations in the Far East. English and German capital has been invested heavily in rubber plantations in the African Colonies, but especially in the East Indian Islands, the Malay Peninsula, Ceylon and certain parts of British India. Japan, also, is eager to have a share of this crop. The output of natural rubber has been declining as the native rubber-hunters, inspired by a greed for immediate profits, and with no regard for the future, continue to "bleed" the rubber trees to death.

The replacing of tree-rubber by a synthetic equivalent is by no means outside of the range of possibility. The necessary process has been invented, but it has not yet proved commercially profitable. Furthermore, the development of plantation rubber has favorably affected the price level of all grades of rubber, in the face of an unparalleled increase in the demand, and has thereby lessened the necessity of finding an artificial substitute for the natural product.

#### REVIEW

In what sense may world-wide trade be considered a modern phenomenon?

Explain how foreign trade rests upon differences of natural resources, and different stages of economic development.

Explain the statement that future trade will follow longitude rather than latitude. What reasons are given for the prediction?

What is the significance of the coal trade for Great Britain?

Describe the wheat trade and recent developments in it. What other cereals enter into world trade?

Give an account of the sugar trade and the competition of cane and beet sugar.

Describe the trade movements in cotton, tobacco and rubber.

## CHAPTER IV

### OFFICIAL TRADE INFORMATION

*1. Intimate relation of government and foreign trade.*—In the beginning of modern times foreign trade was the object of solicitous interest on the part of the government. As a factor in national affairs, foreign trade loomed far larger than it does today. For a century or more before the time of Adam Smith the chief object of the commercial policies of nations was to secure a favorable balance of trade and promote the importation of gold. A whole school of political philosophy which dominated the government action in this period held up foreign trade as the primary source of the growth of national wealth.

*2. Revenues.*—Another reason for the extraordinary emphasis placed upon foreign trade was the intimate association between the exported and imported goods and the revenues of the state. Customs duties on imports, and often on exports formed the chief source of public revenues. The imposition of taxes always brings with it the intervention of the government authorities in business affairs. Hence, no branch of economic activity was so early or so uniformly subjected to the scrutiny and supervision of the public authorities.

Long after the idea was discarded that foreign

trade was the sole source of national wealth the fact remained that it was, if not the sole source, at least the most prominent source of public income. Hence governments thruout the world continued to watch carefully the import and export movement, and on no other branch of business is our information so complete as here.

3. *Shipping*.—It has followed naturally from the relations of the government to foreign trade which have already been noted, that the government should take under its special supervision the regulation of shipping. The work of the United States government in this respect is extremely broad. Legislation on shipping matters is the concern of the United States government.

The chief organ of the United States which is concerned with these matters is the Bureau of Navigation of the Department of Commerce. This must not be confused with the bureau of the same name in the Navy Department. The Commission of Navigation is given plenary jurisdiction over the commercial marine and merchant seamen of the United States, so far as they are not subject, under the laws, to the supervision of any other authority. Besides having other duties, the Commission of Navigation is in charge of "the registering, enroling and licensing of American vessels, the measurement of vessels, the interpretation of the tonnage tax laws, the listing and describing of all American vessels, the issuance of instructions to the collectors of customs in regard to the

documenting of vessels, and their clearance, entry and movements, and instructions in regard to the entry of vessels into ports subject to quarantine, the enforcement of the law for the protection of seamen, and the publication of statistics relating to the merchant marine and the American shipping industry."

The annual report of the Commissioner of Navigation contains most valuable information, not only regarding our shipbuilding industry and merchant marine, but also concerning the needs of our shipping interests and the laws required for the promotion of the American shipbuilding and shipping industries.

For the benefit of mariners, the United States, thru the Bureau of Lighthouses, maintains its system of lighthouses, and, by means of the Coast and Geodetic Survey, charts the waters of the United States. For the safety of those on sea it maintains the Coast Guard Service. Of course, the primary function of such a service is to assist in the collection of the revenues and to prevent the illicit introduction of dutiable goods. It has, however, been given a larger field of activity in lending assistance to vessels in distress. The safety of those at sea is still further guarded by the efficient United States Life Saving Service.

4. *Supervision of shipping in Canada.*—Quite as far reaching is the oversight exercised by the Canadian Government over the merchant marine and matters of shipping generally. Functions similar to those of the United States Commissioner of Navigation are

performed by the marine branch of the Department of Marine and Fisheries. Among the important services under the control and supervision of the deputy minister of this department and his complex organization are the administration of the Canada Shipping Act and other Federal acts relating to marine transportation; pilotage; the construction and maintenance of lighthouses and other aids to navigation; ports, harbors, piers, wharves, and breakwaters; sick and distressed seamen, and management of marine hospitals; river and harbor police; inquiries into the causes of shipwrecks and casualties; the inspection of steam-boats; the construction and maintenance of the St. Lawrence Ship Canal; and the Meteorological Service of Canada. The value of the last two services alone to Canadian trade and shipping could hardly be exaggerated. The Fisheries Protection Service and the Life Saving Service have recently been transferred to the Department of Naval Service.

The Marine Department issues each year a valuable report covering the various phases of its work, and giving statistics of Canadian shipping with occasional comments on the needs of the shipbuilding industry.

5. *Trade information.*—One of the chief aids which the government gives to those interested in foreign trade is the publication of general information in regard to trade conditions. This work is centered in the Bureau of Foreign and Domestic Commerce, of the Department of Commerce, which has regular publications in regard to the trade of the United States

and to trade opportunities thruout the world. In addition to publishing such information for general interest, the Bureau has a much larger activity in supplying detailed information to persons immediately concerned, in regard to the markets for their goods in foreign countries. In one sense the Bureau is the official publicity agent of our foreign trade. The detailed consideration of this aspect of the work of the Bureau will be reserved for the Modern Business Text on "Business and the Government." We are concerned here only with the more general activities of the Bureau.

6. *Statistical information.*—The Bureau of Foreign and Domestic Commerce publishes a "Monthly Summary of Foreign Commerce." This publication is usually given to the public five or six weeks after the close of the month to which it refers. Each issue contains about 90 pages of quarto size, and contains detailed information concerning the exports and imports of the month. For purpose of comparison, figures are also given for the corresponding month of the previous year. Beginning with July 1, the publication contains the figures for so much of the calendar year as has already passed, together with figures for the corresponding part of the previous year. Beginning with January, these cumulative figures relate to the fiscal year beginning July 1.

Annual figures in far greater detail are published in a large volume on "Commerce and Navigation of the United States." These are particularly valuable

when it is desired to trace back for a number of years, the trade in any particular product with any particular country. Much of the information contained in this volume, tho naturally in much condensed form, appears also in the "Statistical Abstract of the United States," published annually by the Bureau of Foreign and Domestic Commerce. This publication contains in addition to the trade figures, a summary of all the other official statistics collected by the United States government.

7. *Daily consular reports.*—The consuls of the United States are constantly reporting upon trade opportunities and other matters of a commercial character which are of interest to the American business man. From these reports excerpts are published daily by the Bureau of Foreign and Domestic Commerce. The more bulky "Monthly Consular Reports" which were published a few years ago have been superseded by these daily issues. More information is given to the public and reaches it more promptly than was formerly the case.

8. *British government aid.*—For the benefit of those who are particularly interested in establishing trade connections with various parts of the British Empire, a summary idea of the assistance that the British government offers in the form of publications and in other forms, is given here.

The British publication that corresponds to the American "Monthly Summary of Foreign Commerce" is "The Monthly Accounts of Trade and Navi-

gation of the United Kingdom," which is prepared at the Customs House and is published by the Board of Trade.

The "Monthly Accounts" may be purchased from Messrs. Wyman & Sons, Ltd., Fetter Lane, London, E. C. These returns are not exhaustive. In fact, in the case of less important articles they give merely the total exports of that particular line, during the preceding months and during the period of the year up to and including the month of the account.

Further particulars are published annually in the "Annual Statement of Trade of the United Kingdom." This is published in three large volumes, the general nature of which is explained below.

- Volume 1. Contains summary statements of total imports and exports by leading classes, as well as detailed statements showing the imports of foreign and colonial merchandise, and the exports of British produce and foreign and colonial merchandise passing thru the country for each year, over a period of five years.
- Volume 2. Contains statements of imports into and exports from each port in the United Kingdom, and gives details of the most important articles imported and exported, for a period of five years; statements of imports and exports consigned from and to each foreign country and British possessions, and the consignments retained in the United Kingdom, during each year for five years; statements of foreign and colonial merchandise, transshipped, under bond, at ports in the United Kingdom; and a statement of free goods imported and ex-

ported that are entered in transit on thru bills of lading.

Volume 3. Contains tables showing the trade between the United Kingdom and each foreign country and British possession, according to the classification in force in 1908 and previous years. (This volume is rendered necessary by changes in classification which are made from year to year.)

Corresponding to the "Statistical Abstract of the United States," a similar volume is issued by Great Britain which contains information about the shipping industry, commerce, population, finance, etc., of the United Kingdom.

The Board of Trade also publishes annually "The Foreign Import Duties Return," a blue book that gives detailed information regarding the duties levied on the more important articles of trade in all European countries, as well as Egypt, the United States, Mexico, Argentine, Japan, China and Persia. This volume is supplemented by the "Colonial Import Return," which contains information concerning the duties that may be levied in British colonies.

The countries that are not included in these British returns have filed their various tariffs with the Brussels International Customs Bureau, from which they may be secured by the payment of an annual subscription. Information in regard to these tariffs and their amendments can also be obtained by British subjects from the Commercial Intelligence Branch of the Board of Trade, which publishes the most impor-

tant information of this nature in the "Board of Trade Journal." Other publications prepared by the Board of Trade, are the special reports from His Majesty's Diplomatic or Consular Officers, or from His Majesty's Trade Commissioners or Correspondents of the Commercial Intelligence Branch. A special publication deals with the regulations concerning commercial travelers, in force in British India, the British self-governing dominions, the Crown colonies and protectorates, and in foreign countries.

9. *General Canadian trade information.*—The institution which in Canada plays the role of official publicity agent for the country's foreign trade is the "Commercial Intelligence Service," a branch of the Department of Trade and Commerce. This branch is designed to promote the sale of Canadian products abroad by providing Canadian manufacturers and exporters with information regarding trade conditions and opportunities in the various foreign markets.

10. *German government service.*—For the sake of those whose trade interests center in Germany and in such territories in regard to which the German government is most apt to possess the most detailed and most reliable information, a few remarks about the statistics and the publications issued by the German government may prove useful.

The Imperial Ministry of the Interior publishes a monthly known as the *Handelsarchiv*, which contains information on the subject of foreign trade and commerce, frequently in the nature of comprehensive re-

ports, or else in the form of general articles on the subject of foreign commercial relations, customs tariffs, and the like. Excerpts from this publication are issued at regular intervals in small monographs.

Germany publishes the *Nachrichten für Handel, Industrie und Landwirtschaft* (Reports on Commerce, Industry and Agriculture), which corresponds to the "American Daily Commerce Reports." This publication aims to bring to the immediate notice of German business men any hints or definite information that may keep them posted with regard to the current state of foreign markets.

Another publication of the Ministry of the Interior is the *Berichte über Handel und Industrie* (Reports on Commerce and Industry). These reports are in the form of monographs which appear periodically. They contain reviews of the annual trade of various countries, or reviews of special industries.

The Ministry of the Interior also publishes compilations of the customs laws and regulations of various countries. A systematic summary of this information has been issued, which divides the various industries into six groups, as follows: Textile; Metal; Stone and Earthenware; Chemicals; Wood, Paper, Leather and Rubber; Agricultural Products and Provisions. The commercial treaties of the German Empire are also published in book form.

The Imperial Statistical Office publishes the statistics of the German Empire relating to foreign trade. Monthly bulletins of imports and exports,

quarterly statistics and two annual volumes corresponding in a considerable degree to the publications of the same nature issued by our government. The "Statistical Year Book of the German Empire" takes the place of our "Statistical Abstract."

Since 1912, the Ministry of the Interior has published an annual "Hand Book of the Export Trade" in two volumes, in which the activities of the German consulates are described, and German exporters are furnished a mass of interesting information on the subject of commercial laws as they apply in various consular districts.

In a treatment like this, it is necessary to confine the detailed information on a subject of this nature only to those phases that seem most important. It goes without saying that other commercial countries, such as France and Russia, issue reports of the same general character, and in a similar manner help their citizens to promote foreign trade.

#### REVIEW

What is the historical reason for the government of the world giving especial attention to matters of foreign trade and shipping?

Describe the work of the United States and Canadian Governments in matters concerning shipping.

What is the character of the information about foreign trade which the United States makes available?

Describe the corresponding publications of the British and German governments.

## CHAPTER V

### PROMOTION OF FOREIGN TRADE

1. *Importance of education for foreign trade.*—One of the prerequisites for the extension of foreign trade is the existence of well-educated and thoroly-trained forces to carry on that trade. Of course, a good elementary education must precede specific training for foreign fields, but the business world realizes that a general schooling does not suffice for this work. The question of educating and training men for foreign trade has been discussed by public, semi-public and private bodies. For example, the problem was considered in great detail at the Third National Foreign Trade Convention, held in New Orleans in the early part of 1916.

The need of men thoroly trained in the technic of foreign trade and familiar with the languages spoken in the various export fields, is naturally especially great in a country like ours, which is, relatively speaking, a newcomer in the field of foreign trade development. At the present time it is extraordinarily difficult to obtain young Americans properly trained for export work. On this account American firms have been compelled to employ many foreigners in their export branches or export departments. The disad-

vantage involved is considerable. In South America, for example, the natives, while nearly always making ideal clerks and correspondents, generally lack the resourcefulness and initiative that are necessary in higher posts. The desirability of employing Americans in foreign trade fields will become greater as the international rivalry in the markets of the world increases.

*2. Difficulty of obtaining Americans for positions abroad.*—The unwillingness of the American citizen to face permanent or even long expatriation, goes far toward explaining why it is difficult to obtain Americans to fill posts abroad. And even those that accept such positions seldom wish to retain them for a period of more than three years. The novelty of the new land wears off, and the ties that bind the American to home and friends are, generally speaking, stronger than those that can be knit abroad. Home opportunities for lucrative employment and rapid advancement are so great that young Americans endowed with the basic qualities of resourcefulness and initiative hesitate to enter the foreign field. It is to be expected, however, that this difficulty will be lessened as our country settles and there is less "spread" between opportunity here and abroad.

James J. Farrell, president of the United States Steel Corporation, has given the following statement of the chief requisite for a successful career in foreign trade:<sup>1</sup>

<sup>1</sup> J. J. Farrell, on "Educational Requirements," Proceedings of the Third National Foreign Trade Convention, p. 173.

1. A well grounded knowledge of the English language, to permit clear and concise expression. A knowledge of one or more languages in addition to English.
2. A comprehensive knowledge of the fundamental rules of arithmetic, including percentage, merchandise and currency calculations, and short methods of accurate computation.
3. A practical knowledge of business-office routine, including the proper handling of mail, receipt and preparation of orders, invoicing and accounting.
4. A practical working knowledge of the routine of the manufacture of any given line of products, including the elements of cost of production. If this can be arranged by actual experience in manufacture, the results are likely to be of greater benefit than the superficial, limited inspection of manufacturing processes frequently used as the basis of a salesman's equipment.
5. Sufficient acquaintance with commercial law and practice, particularly with respect to the negotiation of ordinary business contracts, to enable determination of ordinary questions relating to business without frequent recourse to legal assistance.
6. A knowledge of domestic and foreign markets, based upon a careful study of natural and manufactured products, and their application to the commerce of nations.
7. Systematic study of the ocean-borne transportation of the world, to attain a degree of familiarity with the types of steamers suitable for the various cargoes adapted to respective trades, the loading of such steamers, the relation of freight rates to measurement and weight cargo and to the class of cargo, a general knowledge of the fundamentals of chartering, ocean bills of lading, marine and war-risk insurance, and similar subjects identified with ocean transportation. If the products to be sold come into competition with home manufactures or with materials on which there are discriminatory duties in favor of other nations, the study of the customs tariffs would ultimately be essential.

**3. Need of mastering foreign languages.**—The lack of specific preparation for foreign trade which is most urgently felt, is the lack of a knowledge of foreign languages and of commercial geography. Altho much can be said in explanation of this prevailing lack in the United States, such a knowledge is not to be considered as a rare asset. It is simply one of the primary qualifications for those who want to become active in foreign trade. Fortunately, the teaching of both modern languages and commercial geography is coming to be more vitalized than formerly. The effective teaching of commercial geography ought to eliminate some of American provincialism, a certain amount of the "God's only country" attitude, to which are directly attributable certain national "manners" that militate against the extension of our foreign trade.

**4. Present efforts.**—To meet the growing requirements of our expanding foreign trade, various organizations and institutions are establishing new branches and arranging for new courses. There is a continually growing number of special courses offered by schools, colleges and universities, by Y. M. C. A.'s and other semi-philanthropic organizations and business houses. These courses, which cover a wide range, include economics, modern languages, industrial organization, commercial geography, finance, banking, transportation, tariffs, business management, accounting and statistics. The aim of such educational work should be to give a man a solid foundation in the ele-

ments of business life which will enable him to specialize successfully in any particular field he may enter.

Our large corporations fully realize the importance of thoro training for activity in foreign trade, as well as the necessity for a general education. Many believe that in the proper education of our young men in business, lies the only guarantee of the future welfare of this country. Mr. W. S. Kies, Vice-President of the National City Bank, holds that upon the ability of this country to develop in the next few years the type of young man who can succeed in foreign countries, will depend the future of the country as a commercial nation. It was the president of the same bank, Mr. Frank A. Vanderlip, who pleaded for a new college degree of Master of Commerce. It was he who also conceived the idea of an educational scheme which should benefit university and business life alike. His scheme has materialized in the courses which the National City Bank is now conducting. This educational plan, because of its wide scope and the intelligent way in which it has been carried out, will be discussed in detail at this point.

5. *Educational work of the National City Bank of New York.*—The educational system of the National City Bank of New York is composed of three divisions: The first division provides for training in the theory and practice of national and international banking for the large number of regular employes of the whole institution. An idea of the subjects of study is revealed by the following table:

- Banking arithmetic**
- Commercial geography and international commerce**
- Business English**
- Foreign exchange**
- Office practice**
- Political economy**
- Practical banking**
- Stenography**
- Portuguese**
- Spanish**

The second division of the educational program provides for the special training of a selected number of the bank's best employes for positions of trust and responsibility in foreign branches—such as those of branch manager, credit and foreign exchange expert, and the like. Particular attention is being given to the training of commercial attaches, whose duty is to aid in the development of the export trade of the United States.

The third division represents a comparatively new departure in the development of banking education. It provides for what might be called a post-graduate school of banking. The new training course that this school gives was established as the result of an arrangement with 16 leading American universities. From 451 candidates, picked from graduates who have specialized in economics and business science, in universities that are offering strong courses in these

fields, 45 men were selected to take the course in banking. All the men are expected to acquire a broad knowledge of this subject, and the institution pays each one fifty dollars a month while he is taking the course of training. Before enrolling, the student signs an agreement to enter the bank's regular service, with the specific understanding that he shall be assigned to foreign service for a certain period after his graduation. The students attend the regular classes and the special language courses besides those conducted in banking. They are housed in a club in Brooklyn, where they spend the evening in round-table discussions of what they have learned during the day. The bank has in preparation, a special Spanish dictionary and instruction book, containing business words, and expressions that do not appear in the ordinary literary dictionaries. This book is used to supplement the language work.

As yet, the training methods in the National City Bank is in an experimental stage, but even at this time the results obtained are so promising that these efforts should be looked upon as pioneer work worthy of imitation. By this we do not mean to create an impression that the National City Bank is the only corporation that offers its employes this kind of opportunity for education and training. It is nevertheless true that no other institution has built up such a complete structure as that which has just been discussed.

6. *Canada's efforts.*—It is unfortunately true that practically no special steps are being taken in Canada

to give men interested in foreign trade a thoro training in the technic of the subject or a knowledge of the commercial languages spoken in the various export fields. In the universities, of course, instruction is given in economics, commercial geography, the theory of international trade, tariffs, banking and finance, transportation, accounting and statistics, and the modern languages.

Much needs to be done by Canada to provide the training which is going to be so essential in the coming period of trade expansion. Manufacturers who are now establishing or proposing to establish export departments find it very difficult, if not impossible, to find men with the necessary qualifications to handle the export work. Other business men—men with considerable experience in foreign trade—make the complaint that except at the head offices or in important shipping centers there are very few men connected with the banks who are well informed in regard to the needs and the technic of export business.

*7. General work of the Philadelphia Commercial Museum.*—A case of a public institution that devotes considerable effort to imparting a general knowledge of commerce, is furnished by the Philadelphia Commercial Museum, supported by the city of Philadelphia and the state of Pennsylvania. Its object is accomplished largely thru exhibits, miniature museums and lectures. The exhibits installed in the main building of the Museum represent the commercial materials of the world, and the imports and ex-

ports as well as the manners and customs of foreign countries. The main purpose of these exhibits is to give a vivid idea of the chief characteristics of foreign peoples, and of the products of their countries. More than two thousand miniature museums, that show commercial products, photographs, and maps, have been distributed among the schools of Pennsylvania. A system has also been developed whereby daily illustrated lectures are delivered to the schools by members of a regular staff. These talks are given in the lecture hall of the Museum. Free, illustrated public lectures on topics pertaining to commerce and travel are also given weekly during a large part of the year. The work of the Export Department of this institution will be taken up below.

An interesting course on foreign trade is being given by the Export Bureau of the Philadelphia Chamber of Commerce in collaboration with the Educational Bureau of the Y. M. C. A. Besides a course in foreign languages and more elementary subjects that have a bearing on foreign trade, a special course on exports is given which touches upon every phase of export shipping, export selling, international credit and settlement, and trade conditions in selected export markets.

The significance of this phase of the problem of foreign-trade development can hardly be exaggerated, and no one should close his eyes to its importance, simply because it is only indirectly related to successful exporting.

8. *Importance of trade information.*—A greater importance, as regards the bearing upon successful exporting, attaches to the dissemination of trade information. Much information is given out by certain business concerns gratuitously because they profit indirectly in so doing. Not only does foreign trade bring profit to those immediately engaged in its pursuit, but its advantages extend indirectly to such concerns as railroads, banks, express companies and trade papers. Since the increase in their profits is in direct proportion to that of the foreign trade itself, these enterprises are naturally interested in its development and are therefore interested in lending their aid to individuals.

There are two classes of institutions engaged in the work of disseminating information concerning foreign trade. First, there are those corporations which incidentally spread information concerning foreign trade possibilities and foreign credit conditions, besides carrying on their regular work—banking or transportation, for instance. Secondly, there are those businesses and institutions which devote themselves entirely to this kind of work, either for the sake of private gain or else in the interest of the public welfare.

9. *Important service of express companies.*—A good example is the work in connection with foreign-trade service rendered by one of the great express companies. This company has organized a foreign-trade information bureau as a part of the foreign de-

partment. Its activities are twofold. It disseminates reliable information on foreign markets and renders practical assistance in the introduction of American goods and in the securing of proper connections in foreign fields. Thru its direct connection with the numerous foreign offices of the company, the foreign-trade information bureau is in a position to act as a clearing-house of valuable information which might not be secured from any other source. It is in a position also to report on the following subjects: Currency and exchange conditions, weights and measures, steamship lines and routes, postal regulations, foreign competition, introductory and selling methods, trade conditions, general credit terms, catalogs and trade literature requirements; the course, time and frequency of shipping routes, the consular invoice regulations, marine insurance, special packing, methods of financing foreign shipments, collections, and patent and trade-mark laws. And not only is information given on all these various subjects, but actual assistance is rendered in connection with all the principal problems of foreign trade.

10. *Banks as sources of promotion.*—The great banks, also, that interest themselves specifically in the promotion of foreign trade, have an extensive information service. Thru a publicity bureau general information is given out in special pamphlets and letters, sent out at regular intervals, which discuss, from the standpoint of general business, the economic conditions of those markets in whose development the

bank is particularly interested. For example, the Guaranty Trust Company of New York issues booklets on Cuba, Argentine, Russia and China. The same institution has also published a book entitled "How Business with Foreign Countries is Financed," which is largely a compilation of the various documents used in foreign trade and shipping, such as bills of lading, marine insurance certificates, commercial drafts, consular invoices, commercial letters of credit, bank acceptances and trust receipts. The National City Bank publishes pamphlets of a similar nature; for example, the following: "Acceptances," "Federal Reserve and National Bank Acts," "Active Regulations and Circulars of the Federal Reserve Board," "Foreign Commerce in American Textiles," "Branch Banks and Foreign trade." In addition, the National City Bank publishes a monthly magazine entitled "*The Americas*," which contains a wealth of information pertaining to conditions in foreign markets, foreign trade methods, foreign banking and allied subjects. The First National Bank of Boston whose Foreign Department has extensive connections, publishes monthly a valuable "Foreign Trade Letter."<sup>1</sup>

<sup>1</sup> The Canadian banks do not go so far as to issue special pamphlets or regular letters as is done by the United States banks. The more progressive banks do however give similar information to their own clients in a less formal and public way. For instance an advertisement of the Canadian Bank of Commerce reads as follows: "Extension of Canadian trade. The bank will make inquiries into the possibilities and requirements of markets abroad for exporters or importers who desire to extend their trade with British colonies or possessions. Owing to the large number of its correspondents and agents it has unusual facilities for this work."

*11. Foreign trade department of the Philadelphia Commercial Museum.*—Another important source of information regarding foreign trade is the Foreign Trade Department of the Philadelphia Commercial Museum. Long before there was a Bureau of Foreign and Domestic Commerce in Washington, this institution, financed by the city of Philadelphia and the state of Pennsylvania, was conducting work very similar to that now done by the Government's Bureau. Members of the staff of the Philadelphia Museum have been sent to almost every part of the world to establish connections with business organizations, governmental bureaus, banking institutions, bureaus of general information, and private concerns. Thru these connections the Philadelphia institution constantly receives fresh data bearing on the trade and commerce of foreign countries, including a large amount of information concerning trade opportunities.

The large staff of the Foreign Trade Bureau—which consists of a great number of well-trained men—answers hundreds of inquiries every day, relating to practically every phase of the export trade. It also acts as an adviser to not a few foreign firms that appeal to the Museum for assistance in establishing business relations in the United States. It has correspondents in almost every city of any commercial importance in the world, and it is in constant communication with several hundred trade organizations abroad with which it has made an arrangement for

reciprocal service. An exceptionally large library makes it possible for the staff of the Bureau, as well as other readers, to secure easily any printed information concerning important subjects.

The Foreign Trade Bureau publishes two periodicals, one of which, "*Commercial America*," is issued in both English and Spanish. It circulates widely among importing houses in all parts of the world. The other, the "*Weekly Export Bulletin*," is designed principally for distribution among manufacturers in this country who are interested in foreign trade.

One of the features of the work of the Bureau is the collection of credit information. In this field it renders services similar to those of the great mercantile agencies, R. G. Dun and Company and the Bradstreet Company, which were established in 1841 and 1849 respectively. Few people realize what an immeasurable superiority of method the books of ratings published by these companies afford to the American merchant, compared to that available in foreign countries. As the granting of impersonal mercantile credit came to be in vogue in foreign as well as in domestic business, these companies branched out into foreign countries. The Bradstreet Company has today 116 offices outside of the United States, which are operated either by the company itself or by Bradstreet in conjunction with other concerns. R. G. Dun and Company are represented in foreign countries by 98 branch offices. Thru the widely ramified organizations of these two firms, the miller upon the

remote banks of the Don and the merchant trader on the Amazon can both be brought into touch with the American who seeks commercial relations with them.

12. *The National Foreign Trade Council.*—The publications of the National Foreign Trade Council constitute a valuable source of information on matters pertaining to the development of foreign trade. So far, three large volumes have been published, which contain the records of the three National foreign-trade conventions called by the Council. Besides these, there are several monographs that deal with the activities in the special fields of foreign trade. The report of the International Trade Conference held under the auspices of the National Association of Manufacturers, December, 1915, is also a valuable contribution to the literature on foreign trade.<sup>1</sup>

13. *Trade papers.*—The trade papers designed to impart information concerning matters of foreign trade should not go unmentioned. Some of them have established such valuable connections with foreign countries that their aid has become indispensable to many concerns. In some cases other service is rendered besides the dissemination of information thru timely articles, editorials and advertising matter. For example, letters written in foreign languages, and secured as a result of advertising, are translated free of charge, and lists of the names of selected buyers in any trade and in any market, as

<sup>1</sup> The Canadian Manufacturers' Association fulfills, among other functions, many of those entrusted to the Council.

well as the financial ratings of foreign firms who apply for credit, are supplied to any who may wish them. Moreover, expert assistance is given to those who wish to solve any special problems that arise in connection with the establishment of new trade connections in foreign countries.

Some of the Canadian trade papers, while not going so far as those in the United States, also do a good deal to assist foreign trade by publishing special articles, opportune editorials and advertising matter. Most of them indeed have a special section devoted solely to foreign markets and the Canadian export trade.

14. *Branch banks.*—Up to this point the discussion has dealt with the various ways and means by which individuals prepare themselves for activities in foreign trade. It is to be noted that two fundamental requirements must be fulfilled before the actual venture can begin, namely, to obtain trained men and to secure definite information. And after both these conditions have been met there are others that have to be considered. The proper transportation facilities must, of course, be at hand. This question will be discussed Part II, on "Shipping." Then there must be a solution of the problem of financing foreign shipments, of finding the channels thru which payment for the goods bought can be made. Here again the banks figure in the mechanism of international trade.

In this respect the Federal Reserve Act, to some

extent, emancipated the foreign trade of the United States from the control of foreign bankers by permitting National banks to establish branches in foreign countries. Before this act existed, branch banking was practically an impossibility for American banks. With few exceptions, the states do not grant to banks operating under a state charter the right of establishing branches. When this right is granted by the state, it usually is restricted to apply only in the city in which the bank is located. Trust companies were formerly the only banking institutions which, as a class, according to the laws of most states, could establish branch banks in foreign countries. An exception to this rule was the granting of a special charter in 1901 by the state of Connecticut to the International Banking Corporation, which was thereby empowered to establish branches in any part of the world. This charter, however, is unique; no other banking institution possesses one approaching it in scope.

15. *Federal Reserve Act.*—This state of affairs was radically changed by the enactment of the Federal Reserve Act. Now American banks, to a large degree, are placed upon equal footing with their European competitors, and the American exporters enjoy the same opportunities as the merchants of Europe, who have derived great advantages from the support of the branch banks of their home bankers. Thus, forty British banks operating in foreign countries have 1,325 branches, and in South America alone, five German banks have forty branches. Thru their

branch banks the great commercial nations of Europe have exercised a powerful control over the trade relations of these oversea countries. Largely by means of this banking control Great Britain, Germany and France exacted heavy tribute in all transactions with the countries in which their influence was so strongly felt. American goods imported into South America, for instance, were in many cases sent by way of England, and even when they were exported directly they were paid for by drafts on London or some other European international financing center. Even goods imported into this country were formerly paid for—and many of them are still paid for—thru foreign bankers.

The relief that the Federal Reserve Act brought was almost immediate. One result was the establishment of numerous branches of the National City Bank of New York in foreign countries. At the time of this writing the latest list available gives the names of the following cities in which such branches have been established:

Buenos Aires	Rio de Janeiro	Montevideo
Havana	Santos	Sao Paolo
Santiago	Bahia	Valparaiso
	Genoa, Italy	

The establishment of other branches in South America and Europe is now being considered. In order to furnish facilities in the Orient, the National City Bank has acquired the International Banking

Corporation with its sixteen branches in India, China, Japan and the Philippines. These branches are being operated independently but in the closest harmony with the branches of the City Bank. Each branch is provided with a trade department and a special credit department which are the means of making the branch banks powerful promoters of American commerce. It is said that twice the present number of branch banks would have been opened if it had been possible to equip them with staffs composed of capable Americans. To provide such staffs is essential in order to overcome local prejudices and win the good-will of the foreign countries for the American banker.

16. *Dollar exchange.*—Perhaps the greatest single service rendered by these branch banks is the building up of a market for dollar exchange. Mr. W. S. Kies of the National City Bank refers in the following words to the urgent need for this service:

Before the establishment of branches in Brazil, Argentina and Uruguay, the dollar was not even quoted. During the last year the volume of direct exchange between these countries and the United States has been remarkable, and practically all the shipments of wool, hides, quebracho, and a large portion of the coffee, have been financed thru the medium of dollar credits.

England's pre-eminence as the world's financial market is, to a large extent, due to the services performed by the English acceptance houses, and to the existence of an active discount market for bills on London originating in all parts of the world. The

introduction of the trade acceptance into American banking brought about by the provision in Sec. 84 of the Federal Reserve Act, has effected a great improvement in the methods by which foreign trade may be financed. It cannot be expected that the American bill drawn in dollars will wholly take the place of the London bill, but considering the establishment of branch banks—many of them in strategic markets of the world—and the combination of circumstances now favoring this country, it can confidently be expected that the bill on New York will soon become a recognized medium for settling balances in international trade.

17. *Foreign investments.*—One of the features that account for the great value of branch banks in international commerce is the assistance which they render in connection with international investments. The idea that trade follows the flag has of late been largely superseded by the realization that "trade follows foreign investment." The countries that have contributed capital for the development of other countries have reaped from the financial relationship involved, great commercial advantages. When a nation invests systematically and to a great extent in foreign countries the entire capital invariably goes out in the form of machinery, materials for construction, tools and general supplies for the construction forces. And when the foreign enterprises have been thus brought to life, they continue to buy supplies for maintenance repairs and renewals. Even loans to

foreign governments and municipalities are of very great importance in the building up of foreign commerce. England, Germany and France have put into Argentine, Brazil and Uruguay in the last twenty five years approximately \$4,000,000,000 and, as a result, enjoy together 46 per cent of the total trade of these three countries. At the outbreak of the great European war it was intimated that British investments in foreign countries amounted to not less than \$20,000,000,000. Of this amount, \$9,240,000,-000 was invested in British colonies, dominions and possessions, and \$8,160,000,000 in the United States. Consequently, if that estimate was correct \$7,600,-000,000 was invested in other parts of the world. In a pamphlet issued by the National City Bank of New York the statement is made: "Of the annual return on this vast amount, the creditor nation has never taken all, but has left a sum ranging between \$600,-000,000 and \$800,000,000 for reinvestment."

The only foreign securities that have so far been active on the New York stock exchange originated in Canada and Mexico. The experience with these two countries has clearly demonstrated the truth that "trade follows the loan." Since 1897, \$700,000,000 of American capital has been invested in Canada. The total exports from this country to Canada grew from \$57,000,000 in 1897, to \$403,000,000 in 1913.

*18. The American International Corporation.*—The realization of this vital principle of foreign trade by American business men has at last borne fruit.

The formation of the American International Corporation is the most conspicuous evidence of this fact. This corporation was created in November, 1915, with a capital of \$50,000,000, under the leadership of the National City Bank of New York which cooperated, however, with other leading banking institutions of this country as well as with important industrial organizations. It was incorporated for the express purpose of promoting and directing a larger participation by this country in the world's constructive commerce. In announcing this new machinery for American financing abroad "*The Americas*" made the following comment about the various participants connected with the corporation:

Mr. Vanderlip will be the Chairman of the Board of Directors. The President will be Mr. Charles A. Stone, head of the Stone and Webster organization of Boston. Stone and Webster are well known to investors in public utility properties. Their business includes three closely allied concerns: a construction corporation, a management association which operates utilities in many parts of the United States as separate Corporations, and a securities company which maintains an extensive and efficient system for investigating properties, determining physical values and estimating business prospects. Mr. Willard Straight, formerly an official representative of the United States government in China, and recently connected with J. P. Morgan and Company, will be a vice-president; there will be a number of vice-presidents in charge of the various activities.

This new company is mediating between the investor and the opportunity and ought to contribute

much to the work of laying the financial foundation of future American trade expansion.

The American International Corporation also will do much to foster a more lively cooperation between the various factors that work together for a systematic promotion of foreign trade. Concerning these activities, later chapters will give more details.

19. *Foreign branches of Canadian banks.*—Fortunately the Canadian Bank Act permits the chartered banks to open branches outside of Canada, and several of the leading banks have established branches or agencies in London, Paris, New York and other points in the United States, Newfoundland, the West Indies and Mexico. Those in London and New York were established chiefly because of the necessity of maintaining adequate reserves outside of Canada and the facilities afforded in these financial centers for international exchange operations. In regard to the others, however, the policy seems to have been governed not so much by a desire to compete for local trade, as by the exigencies of the banks' own or their customers' business.

The question is sometimes asked whether apart from a few such instances Canadian banks have done all that was possible to build up foreign trade. Complaints are not frequent but they have occasionally been made. To quote a man prominently connected with the export business:—"There has been little or no concerted action in the past to organize the export

fields, with the result that Canadian banks have provided little or no special machinery for this class of business, and are not particularly well-informed with regard to the necessity of their cooperation in export business, except at their head offices or in important shipping centers." The Canadian Trade Commissioner in the Argentine Republic has frequently pointed out that before a large trade can be built up with that market better shipping and banking facilities must be provided.

It can reasonably be expected, however, that as Canadian commerce expands, the need for banking facilities to carry the trade will lead to the establishment of branches of Canadian banks at many other points in the leading export markets. Their establishment will in turn bring a progressive expansion in Canadian trade, not only by creating the necessary credit and exchange facilities but also by advertising Canada and providing a very useful channel for trade inquiries and credit information.

20. *Canada's foreign investments.*—While the shrewdest of Canada's business and financial men may have long since realized the truth in the maxim that trade follows the loan, yet as a matter of practical policy any large recourse to this method of cultivating trade has been impossible. True it is that Canadians played a unique part in the exploitation of the light and power traction opportunities of Latin America, especially Brazil, Mexico and the West Indies, but

the credit is due to Canadian enterprise working largely with foreign capital. Canadian railroads, again, have built, bought and leased over 7,000 miles of road in the United States or nearly one-quarter the extent of the whole Canadian railway system. But as has already been shown, Canada, "with half a continent held in trust, its resources little known and less developed," must for many a year remain a seeker of capital. All the capital which it can accumulate or over which it can obtain control will find profitable investment in the development of its own virgin resources. Not only that but, considering the nature of the export trades in which Canada will be able and likely to specialize in the immediate future, it is doubtful whether any considerable gain or at least any gain comparable with that which the American International and similar corporations will bring to the United States, would result to Canadian trade.

*21. Railroads and foreign trade*—Finally, the transportation companies are in a position to aid very considerably the development of foreign trade. Edward N. Hurley, formerly of the Federal Trade Commission, may have attached exaggerated importance to the part that railroads can play in this respect when he stated that the establishment, by the railroads, of foreign trade departments would mean the virtual prevention of panics and periods of business depressions. There is no doubt, however, that they can do much.

**FOREIGN TRADE****REVIEW**

Explain the need of special training for work in foreign trade. Describe the educational work of the National City Bank, and the Philadelphia Commercial Museum.

What kinds of corporations and business concerns are interested in disseminating information upon foreign trade, and what means do they employ?

How do branch banks promote foreign trade?

What is meant by dollar exchange? What is the outlook for its wider use?

Explain how investments in foreign countries promote foreign trade.

## CHAPTER VI

### METHODS OF EXPORTING

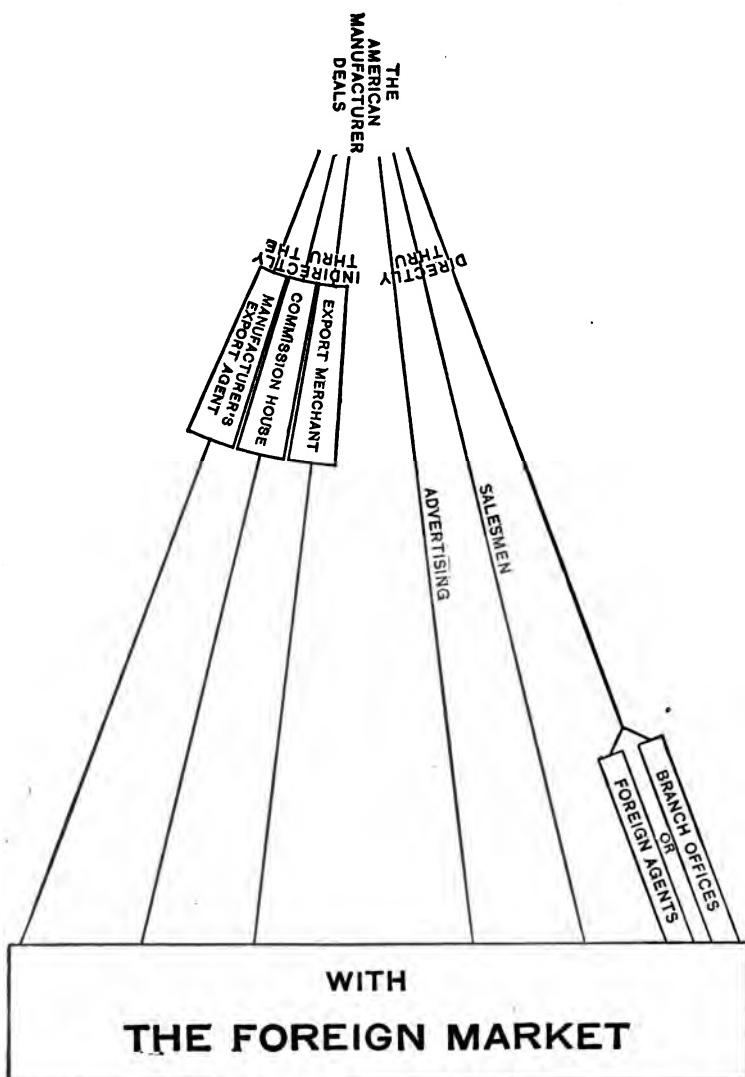
1. *Variety of foreign-trade methods.*—The foreign trade of a country is the composite of thousands of individual transactions, varying widely as regards the methods by which they are performed. The size of the exporting firm, the volume of its business, the nature of the goods exported, general economic conditions and trade traditions in the exporting and importing countries, the customs regulations at the ports of clearance and entry—these are among the most important factors that have to do with the manner in which foreign trade is carried on. The export manager of a large American corporation expresses the following opinion in regard to foreign-trade methods:

There is one thing which it seems to me should be more impressed upon the minds of manufacturers who are thinking for the first time of going into foreign markets. It is a fact that they cannot sell all kinds of things in the foreign markets, or in small or large quantities, in the same way. Every man who is going into the export field has a problem in the organization of his foreign sales that is particularly his own, and he had better study it out before he goes too far in other directions. We do not handle our business with the same kind of selling organizations everywhere. There are parts of the world where we have our own representatives, acting singly, in other parts, a more formal organization of

salesmen under local managers. In some countries, however, we have found it best to sell thru local agents or commission houses, or thru large wholesalers with whom we make special arrangements. Part of our export business is handled for us by international trading companies.

*2. Direct and indirect methods.*—There are two methods of dealing with foreign customers, the direct and the indirect. To understand what is meant by the terms "direct" and "indirect," it is necessary to keep clearly in mind what transaction of the exporting process is meant. Exporting, like all other merchandising, is divided into three main groups of activity; marketing (including advertising, corresponding and selling), financing and shipping. We refer here exclusively to the first group, marketing. When the direct method of exporting is used, the foreign customers are reached directly thru the manufacturer's own export department, and no use is made of the services of an intermediary outside the manufacturer's organization. For his financing, the manufacturer may need the support of a banker, and he may avail himself of the services of a forwarding agent in the actual shipping of his goods, but the marketing is done by the manufacturer himself.

On the page opposite is a diagram illustrating direct and indirect methods of exporting. As this chart shows, there are several methods of direct exporting. The manufacturer can reach his customer thru branch offices, thru salesmen or thru advertising and correspondence.



3. *Export department.*—In all cases the manufacturer who enters the export field will have a special export department. Our giant corporations have found it desirable to organize subsidiary companies to handle all their foreign business. Examples are The United States Steel Products Company, the foreign sales subsidiary of the United States Steel Corporation; Bethlehem Steel Products Company, the export subsidiary of the Bethlehem Steel Company, and the United States Rubber Export Company, which is the corresponding subsidiary of the United States Rubber Company. Naturally, only a great corporation which is itself composed of individual companies can afford to carry the overhead expenses of such an organization.

The manufacturer's exporting department may be only loosely connected with the home organization, and may have an independent export manager, who is sometimes responsible to the directors alone; or else it may be "built in"—that is, organized in such a way that the existing office and clerical forces are used as much as possible for both domestic and foreign business.

4. *Marketing policy.*—When the form of organization for the export department has been decided upon, the next question concerns the marketing policy. In the case of a worldwide selling campaign, it is quite possible that every available method must be used, since different markets require different treatment. Some parts of the world can be reached only thru

certain trading companies, others must be exploited thru branch houses, and still others by mail. Since there are very many varieties of marketing methods that are practicable, each case must receive careful consideration with respect to what method it will be best to use. In any event, practically the same principles that have proved successful in domestic trade can be applied. However, a few suggestions will prove useful for guidance.

5. *Branch houses.*—The establishment of branch houses is an undertaking which involves a large outlay of capital, causes heavy overhead expense, and pays only in the case of long-term sales campaigns. It is therefore by all means desirable to consider most seriously all the factors involved before deciding to establish branch houses. A number of our pioneer export corporations, however, such as the Singer Sewing Machine Company, the Walkover Shoe Company, the International Harvester Company, the United States Steel Products Company, the Victor Phonograph Company, have employed the branch-house method with great success. Besides large capital backing, a prerequisite of this method is a firm determination to go into the foreign business of today with the idea of permanency, and not merely for the purpose of taking the foreign market by storm in some hasty whirlwind campaign.

6. *Salesmen abroad.*—A book could be written on the subject of the employment of American salesmen abroad. The problem is complicated by the fact that

an economic, a national and a psychological viewpoint are essential. The greatest possible care must be taken in routing the salesmen in foreign fields, for the distances to be covered are so great that faulty routing may result in greater losses than in the case of domestic selling. Moreover, greater patience is required than in selling at home, for it is often a long time before results are perceptible. And finally, in selecting the salesmen the concern must bear clearly in mind the conditions peculiar to the market that these men are to serve.

7. *Local commission agents.*—The local commission agent differs from the salesman in two essential points. The first is, that he is permanently stationed in a given territory; and the second that, being a representative of a number of concerns, he stands outside the organization of the exporting manufacturer. Because of this latter fact, we cannot accurately say that the exporting is done directly when such a man is employed. The local commission agent is considered at this point in order that we may compare him with an exporting concern's agent who travels abroad. The local commission agent who lives abroad has a marked advantage in that he possesses a more thoro knowledge of trade and financial conditions than the traveling salesman can secure from occasional visits. The limitation of the local man's territory enables him to become intimately acquainted with a wide range of commodities and buyers. As a rule, each of these agents is granted exclusive rights in his

own territory. In such countries as Australia, South Africa and China, where American export commission houses have an extremely strong hold on the customers, the local commission agent confines his efforts to the securing of the order for the manufacturer whom he represents and handing it over to the commission house thru which his customer deals. The commission house then tends to the execution of the indent in its usual way. (The term, indent, is the technical name for a foreign order.)

The local commission agent, because he is in intimate contact with local conditions, and because he is continually on the spot, can take advantage of seasonal changes and of special opportunities that may arise. He is granted the right to make the selling prices conform to special conditions and opportunities. Because he keeps in close touch with local bankers, collection attorneys, and credit-protection associations, the local commission agent is well able to pass judgment in regard to the advisability of granting credit to those who apply for it. He can assist the collection department by personal requests for payment; he can mediate in any disputes that take place between the firm and its customers; and he can be made the receiver of stock goods, especially spare and repair parts for mechanical apparatus. In rare cases this local agent assumes financial risk incident to a foreign sale by virtually guaranteeing a customer's account. Under such circumstances the law designates him as a "del credere" agent.

The functions and duties of the local commission agent abroad differ from those of the foreign agent as they are frequently understood. The term, foreign agent, is often used to designate a foreign merchant who buys independently on his own account, and who has a more or less exclusive right in a given territory to handle the goods which he buys. For him, sales are, of course, direct sales.

8. *Forwarding agents.*—Whether he sells directly or indirectly, the exporter, in order to facilitate shipment, must utilize the services of specialists in the shipping line. A manufacturer who is not over-anxious to develop his export trade, but who is occasionally approached concerning an order by a firm abroad, generally employs a forwarding agent to attend to the collection, dispatch and clearance thru the customs of such shipments. Moreover, the thru bills of lading that can be obtained from this country provide for the shipment of goods to foreign ports only. If the buyer is inland, abroad, he may desire to have the shipment delivered to him simply "F. O. B. destination." An American forwarding concern, such as one of our express companies, can give a thru bill of lading for any interior point anywhere in the world. In foreign countries that have highly developed forwarding agencies of their own—England and Germany, for example—the interior buyer will prefer to have the goods delivered F. O. B. to the port and will attend personally to forwarding them inland.

American forwarding concerns, like our express

companies, handle a great volume of small shipments which all move in the same direction, but which originate with different manufacturers. The goods are packed together and combined on one ocean bill of lading. The forwarder's agent divides the shipment at the port of discharge for delivery to the various consignees. The forwarding agent also attends to clearing the goods thru the customs of the importing country. The forwarder thus makes possible a saving in freight rates and the obtaining of a thru rate to the interior point of destination, and, in addition, gives valuable service in clearance at the port of export as well as at the port of discharge.

9. *Freight broker.*—Services similar to those performed by the forwarding agent at the port of shipment are also performed by a freight broker at the American port. To him are consigned the export goods from the interior points where the orders originated. He pays the necessary dock charges, takes out an ocean bill of lading, clears the shipment and sees that it is put promptly on board the steamer for which it is booked. The freight broker is paid by the shipping company for which he works a commission on the amount of freight that he delivers for that company.

10. *Parcel post.*—The parcel post renders valuable service in direct trading. It is especially adapted to the delivery of small trial orders, samples, repair parts and small articles urgently needed. It is particularly useful to a concern that deals with customers in the

out-of-the-way corners of the world. In the matter of parcel post connections, the American exporter is seriously hampered in competing with his European commercial rivals. From England, Germany, Holland and Belgium, merchandise can be forwarded by post, C. O. D., to the most remote countries, at low cost to the buyer and with little risk for the seller. An American cannot send goods by mail C. O. D. to a single foreign country, or even to the Philippines. The American government has so far failed to furnish parcel post connection of any sort with Cuba, Roumania, Bulgaria, the greater part of India, Siam, the Malay States and the Straits Settlements of Asia. Likewise in Canada there are no arrangements under which parcels must be sent by mail C. O. D. to any place in Canada or in any other country.

This condition is a serious handicap to the small exporter. The larger exporter sometimes solves the problem by consolidating a number of small parcel-post shipments into one single freight shipment, forwarding this to the foreign countries that have adequate parcel-post facilities, and having the parcel-post shipments unpacked and distributed there. The export manager of a large mercantile establishment in Chicago gives the following description of a method employed by his firm:

By reason of the volume of our business we have been able to effect an arrangement whereby we forward to Liverpool three times a week a bale of packages already wrapped and addressed to places with which the United States has no

parcel post connection. At Liverpool the mail is opened and the parcels are deposited in the British post by our agent. This arrangement gives us an advantage over casual shippers, who must rely upon the high charges and unsatisfactory service of forwarding concerns.

It is certainly not right that British wares can be sent by the London competitors of American exporters to the Philippines, Hawaii and Alaska by post, but that American goods cannot be sent by mail to the islands under British control in the same part of the world. Our Pacific possessions are free to British merchants, but Great Britain's Pacific Islands are closed to us. The extension of our parcel post facilities is one of the most urgent tasks that our government has to perform.

11. *Selling by mail.*—The salesmen's weapon is "the spoken word." His sales talk, which is built about a concrete fact, is a case in point. Salesmen are usually aided by the written word (correspondence) and the printed word (catalogs and advertising). In certain cases, particularly in the marketing of low-priced specialties, thruout the entire sales campaign these two instruments are used exclusively. In other words, no personal salesmen are employed. The term, "all-mail" campaign applies under such circumstances.

12. *Indirect exporting.*—Even if the American exporter decides to turn over to others the task of pushing his sales abroad, he is by no means freed from the responsibility of strictly supervising the work that

is done. No manufacturer or exporter can afford to rely absolutely upon the zeal and ability of those who are not directly and exclusively working for him. If anyone thinks that he can simply turn his export business over to professional exporters and draw profits from the efforts of others he is probably doomed to disappointment.

13. *Position of the middleman.*—In many cases the world-wide tendency toward the elimination of the middleman is carried too far. There is danger of swinging from one extreme to the other. It is as wrong to rely entirely upon the efforts of others as it is to believe that their aid is always to be spurned. The middleman, whether agent or merchant, is not "everything," yet he fills his place, a place which no one else can occupy without the smoothness and efficiency of the mechanism of foreign trade being diminished. The middleman is not a "parasite on the trade," not a "leech on the factory," his profit is not "a tribute akin to blackmail." The fundamental principles of economics, upon which are based the division of labor and the resulting specialization of occupations, justify the existence of various types of middlemen in the foreign trade, just as they warrant the division of the manufacturing process into manifold partial performances. When the manufacturer has introduced his goods effectively in a foreign market, if he has large sales and a good capital backing, if by long experience and by the possession of a very capable export organization he is fitted to

deal with the difficulties connected with foreign shipping, he is wise if he eliminates all middlemen and adopts the method of direct trading. But such cases are rare exceptions. As a rule, the foreign market needs constant attention, and consequently, unless the conditions mentioned above prevail, the manufacturer can accomplish more by employing professional exporters than by depending upon either his own export department or upon foreign branches.

14. *Early merchants replaced by agents.*—The larger part of our export trade is handled thru middlemen, who are generally known as exporters and importers. If they buy and sell on their own account, they are properly called merchants. If they act only upon orders from abroad, and if they receive their pay in the form of a commission from the foreign buyers they are generally called commission merchants. They are known as export agents if they receive a commission from the exporting manufacturers in the United States. In theory, these distinctions may be drawn rather closely, but in practice the field of each class overlaps that of the other.

Our export trade, then, is carried on both by agents and by merchants who buy on their own account and at their own risk. The earlier American exporters were merchants. In England and Germany the merchant system today figures prominently in foreign trade. Of recent years in the United States, not the merchant but the export commission house has been the dominating figure in our trade. In New York

alone there are over 600 of such houses, and still others are situated in the other important seaports of the country. Some of them have acquired great magnitude, prestige and influence, and have become indispensable in the development of our foreign trade. Less than 12 of these concerns handle one-fourth of the entire export trade of the United States; two control half our trade with China; and probably between 60 and 70 per cent of all the export trade of the country is under the direct control of these middlemen.

*15. Position of the export commission house.*—The relation between the manufacturer and the export commission house has been the subject of much discussion for many years. A strenuous effort has been made to wrest from the commission house some of the influence that it exerts over our foreign trade—an effort which is strictly in keeping with the general tendency to eliminate the middleman. To be sure, the growth of our manufacturing corporations and the expansion of our export trade justifies the manufacturer, in certain cases, in dispensing with the services of the commission house. But while it is true that some of these houses have been guilty of irregular practices, it should be said in their defence, that the overwhelming majority strenuously oppose any dealings that are at all questionable. A just opinion of the worth and value of the commission house can be based only upon a thoro knowledge of

their position, the nature of their service and the methods which they employ.

16. *Definition of the commission house.*—It is almost impossible to give an accurate general definition of the export commission house, since the spheres of activity covered vary with different houses. Consequently, it is hard to discriminate between the essential and the incidental characteristics of this type of business enterprise. In its simplest form, a commission house is a firm that acts as buyer for foreign customers—merely executing their orders and charging for its services a certain rate of commission. This definition describes only the essential features common to all commission houses. How greatly these institutions differ in other respects is apparent from the following statement concerning exporters, made by Gustav Vintscher, the president of one of the largest New York exporting houses, the Markt and Hammacher Company:

There is a difference between exporter and exporter. We have those who work on antiquated lines, sit behind their office desks with nothing more than an office expenditure, wait for indents from their clients to bring what they ask for, charge a small commission for financing, and then are done with the business. There are exporters who are live and are progressive, who have their traveling men all over creation carrying extensive sets of samples. There are exporters who even carry stock in different parts of the world, and so to speak, take the position of the manufacturer's foreign agent.

17. *Commission house as merchant.*—When an

exporter carries his own stock of goods he is no longer a commission merchant, but a merchant. Today there are very few merchants, pure and simple, among the American exporters, tho some of the latter occasionally assume the character of merchants in connection with certain lines and a limited market—for example, when market conditions render the carrying of stock advisable or necessary. In some markets, the combination of commission merchant and merchant is tabooed. Mr. Welding Ring says that Australians would not deal with an export commission house which, while serving them, at the same time traded on its own account, because, they claim, these two branches cannot be conducted in harmony.

It should be borne in mind that whenever a commission house acts in the capacity of a merchant—in other words, whenever it buys goods without being ordered to do so by a foreign buyer, and with the intention of selling them at a higher price than it paid, it has no right to ask a commission. Whenever a commission is charged, the merchant no longer acts merely as a buyer or a seller. So any other profits, such as "private discounts," are considered by the trade "irregular and calculated to deceive clients."

*18. Advantages offered by the commission house to the foreign buyer.*—The export commission house could not have acquired its present significance and influence if those who used its services had not derived advantages from it. There are two distinct classes

that the export commission house serves; the foreign buyer and the exporting manufacturer.

First, the advantages that the foreign buyer secures from dealing thru an export commission house should be considered. The chief advantage is a general simplification of transactions. Instead of corresponding with fifteen manufacturers located at various places, he writes a letter to one commission firm, combining many orders in that one letter. After the commission house has distributed the respective orders to the various manufacturers and collected their goods in one consolidated shipment, one bill of lading is made out and one draft is drawn on the buyer. Instead of there being the necessity of making out shipping documents such as insurance papers, consular invoices and the like, for each order, it is necessary only to make up one set for the entire shipment. There is a consequent saving in postage, clerical work, and freight and port charges. Then, too, the export commission house, since it is in close touch with manufacturers, can often secure the latest style of goods on the market. It can act as intermediary between the manufacturer and the buyer, and, when complaints are made, can materially assist in adjusting them. The export commission house frequently finances the foreign buyer. It draws on him a sixty- to ninety-day draft, in other words, grants him long-term credit, which the manufacturer is unwilling to do.

These advantages are not appreciated equally in

different parts of the world. European importers, for instance, generally dislike to deal thru American export commission houses, and many South American concerns also prefer not to do so. Importers in Australia, South Africa and the far East, on the other hand, freely make use of the foreign export commission house in dealing with foreign countries.

*19. Advantages offered by commission house to exporting manufacturer.*—The advantages that the export commission house offers to the exporting manufacturer are of various kinds. They lie largely in the trade connections which, by long and constant effort and by the use of a variety of methods, the commission house has established in various markets. Few manufacturing corporations can afford to develop and maintain an export organization as efficient as that possessed by most commission houses, to sell the products of hundreds of manufacturers and to represent large buyers who carry on transactions in great markets. But the commission house is in a position to distribute economically and effectively the large output of one factory over a wide territory, and to combine the exportable surplus of a number of factories and place it where the demand exists.

Besides the ability to create the demand that governs the distribution, incidental to selling, the commission house offers other inducements to the manufacturer. It pays cash for goods, and in so doing takes upon itself, the uncertainty of the credit arrangement that is made between the American seller

and the foreign buyer. The following illustration will make clear what has just been said: Exchange with Brazil during the year 1914 varied so widely that at times the extension of credit to a Brazilian buyer would have meant the payment of \$100,000 that he owed and would have required \$125,000 in value in Brazilian paper money at the time the bill became payable. Under such conditions, how much chance would there be for an independent exporter to get full payment, indeed any at all?

20. *Efforts of the exporter to support the commission house.*—In many cases, even if a commission house handles the export business of a manufacturer, the latter will find it advantageous to build up auxiliary advertising and selling campaigns. The advertising is usually left entirely to the individual American exporter. Frequently, the American exporter sends special sales representatives to travel with the salesmen of the export commission house, to teach them how to sell the exporter's goods. In such cases the representative of the exporter is known as a "specialty salesman."

21. *Relation of the commission house to the foreign agents.*—In some markets the export commission house is the most efficient selling force, while in others exclusive foreign agents bring the best results. Manufacturers frequently employ the services of both in selling their product abroad. Care must be taken to secure a proper coordination of the two agencies. No firm should sell thru a commission house to a terri-

tory that has been reserved for an exclusive foreign agent. It must be insisted that the commission house give sufficient information concerning the destination of the goods it sells to insure the exclusive agent adequate protection.

*22. Recent inroads in the field of the commission house.*—Of late, the export commission house has been losing some ground, partly on account of the world-wide tendency to eliminate the middleman and partly because of the change in the nature of our foreign trade. Since staple commodities constitute the main stay of the commission house business, the increased specialization in our manufactured exports has limited the sphere of the export commission house and consequently caused them loss. The development of certain great American corporations into organizations of world-wide influence which, only in exceptional cases, employ the services of outsiders to develop their foreign business, has also hurt the business of the commission house.

It is said that an increase in the volume of specialties handled does not compensate the commission house for the loss of its staple business. Such a house can make more money by accepting as small a commission as one per cent on staple commodities than by insisting on receiving five or ten per cent on specialties. The explanation is said to lie in the handling of staples. A large order for cotton-piece goods, the record of which fills only one line in the ledger, is relatively more profitable than an equally large order for miscellaneous

hardware, the listing of which fills many pages of the ledger.

*23. New services of the export commission house.*

—To forestall further loss in their share of the nation's trade, the commission houses are giving more and more attention to a branch of activities which is not exclusively their own—namely, the introduction of new American goods. Some difficulty is experienced in this connection owing to the fact that the real function of the commission house is not to help to introduce American commodities but to enable the foreigner to make the wisest possible selection of them.

In order both to introduce new lines and to keep in close touch with its foreign clientele, the large commission house maintains an organization in the foreign market; this may be in the form of a branch house, a local agency or a force of traveling salesmen.

*24. Limitations of the commission house service.*

—From the foregoing discussion, it is evident that the sphere of the commission house is by no means unlimited. It is seldom advisable to appoint an individual commission house as an exclusive agent, for while its clientele might be strong, and while it might be possible to enlarge it by means of effective advertising and selling campaigns, it must be kept in mind that no commission house possesses a monopoly in any foreign territory, and that it would therefore be unwise to shut oneself off from the buyers who habitually purchase thru other American commission houses operating in the same territory. Moreover,

the manufacturer should himself strive to create a demand for his goods, and not merely trust matters to the commission house. Mr. Kies of the National City Bank of New York, makes this requirement clear in the following statement:

I want to emphasize this point to the manufacturer who is starting in the field for the first time, that the export house gives an opportunity to do business with the least trouble and expense to himself. It is up to the manufacturer, however, to build up the demand for his particular product. If the manufacturer, by judicious advertising and promotion work, will open up a market for his goods, he can very readily rid himself of the other troubles in connection with the export business by utilizing the services of the export house.

There are various agency services at the disposal of the manufacturer who wishes to avoid the mediation of the commission house, principally the services of the merchant and of the manufacturer's agent.

*25. Merchant system; loaning capital to foreign importers.*—In the United Kingdom and Germany, the merchant system is stronger than it is anywhere else. There is considerable difference between the methods employed by the export merchant of London and Hamburg respectively. The British export merchant is practically a financier, and he loans his capital for orders. Such a British house, for example, decides to place £50,000 sterling in South Africa. Certain importers who are thoroly well known to the principals are given varying credits—£15,000 to one,

£10,000 to another, etc. These (South African) importers order from England such goods as they please. Their bills are paid by the British export merchant, but the latter does not interest himself in the character or the source of the goods ordered. He simply restricts the amount of money which he is willing to advance for each customer, who is obligated to that amount by interest-bearing notes or other securities.

The German export merchant, on the other hand, usually loans his money on goods which he sells himself. He is anxious to tie his foreign customers to himself by keeping the origin of the commodity sold concealed from the buyer. For that purpose, all marks of origin are removed from the goods, which are repacked and marked with the export merchant's own signs of shipment.

It is believed in some quarters that the export merchant will play a more important part in the future of the American export trade than he has in the past. The difficulties of the export commission house on the one hand, and the narrowing of the margin of profit generally experienced in American business, will call the export merchant to the front. The necessity for more liberal credit, granted by American exporters, will tend towards a change in the same direction. A closer cooperation between the American exporting manufacturer and the exporting merchant will do much towards aiding in the exploitation of foreign fields, which today are largely left almost uncontended

to the European competitor. This may be true, particularly of our export trade in cotton piece-goods.

26. *Manufacturer's agent*.—The commission house, as we have seen, is primarily the representative of the foreign buyer, and not of the exporting seller. The merchant, on the other hand, is nobody's representative. He buys where he pleases and sells where he pleases, and is governed only by his desire to serve his own best interests—in other words, his aim is to pay the lowest and to obtain the highest possible price.

It is not surprising to find that a third agent is rapidly assuming a position of importance; namely, the manufacturer's agent. The function of this agent is like that of a commission house. The agent exerts just as much effort, and uses fully as much skill to obtain the best markets for the products of the exporting manufacturer, as the export commission house does to find the most advantageous sources of supply with which to fill the indents received from the foreign buyer. Each of those agents usually specializes in a particular line and represents a large number of manufacturers.

The new type of export commission men has good prospects in view of the fact that American exports are undergoing a momentous transition from the status of self-selling staples to that of manufactures, for the disposal of which, because of their competitive nature, a vigorous sales' campaign is absolutely necessary.

*27. Canadian practice.*—Generally speaking, all that has so far been said in this chapter applies to Canada as well as to the United States. The different methods of exporting, the different types of middlemen, and the pros and cons on each point are more or less the same for both countries. It will only be necessary to note a few points of difference due to lack of experience in export trade, and to give a general picture of conditions.

As in the United States, a number of the larger concerns have their own branch houses or agencies abroad. These are the firms that blazed the trail for the export of manufactured articles to foreign markets. Most of the large agricultural implements companies and some of the large iron and steel companies have adopted this method.

Quite a number of companies in various lines of industry employ their own traveling salesmen in the leading markets. Sometimes two or three allied concerns, for instance in the implement trade, become jointly responsible for the maintenance of these salesmen.

A good deal of Canada's foreign trade and a rather larger proportion than in the case of the United States—is negotiated by mail, the result of the sending of catalogs, the chance reading of advertisements and considerable correspondence. The larger proportion in the case of Canada is due to the fact that so much of our trade is of the casual sort, too many Canadian manufacturers in the past regarding

the foreign market as merely a good outlet for an occasional surplus due to a depression in the home market.

28. *Commission houses in Canadian trade.*—It is probably true that the majority of Canadian exporters deal thru commission houses or thru local commission agents in the foreign markets. Unfortunately there are only a few Canadian commission houses doing business overseas, and these are for the most part engaged in the foodstuffs and provision trades which like the lumber trade are staple and well-organized.

An increasing number of Canadian firms are forming connections with local commission agents in the export countries. This is the practice recommended most frequently by Canadian Trade Commissioners abroad. Care must however be taken to secure only responsible agents.

#### REVIEW

Enumerate and describe the different methods of dealing directly and indirectly with the foreign market.

What advantages does an exporting manufacturer obtain from branch offices?

State the nature of the work of a foreign local agent and the advantage of employing him.

What is the role of the forwarding agent and what services does he render?

In what respect are we at a disadvantage compared with foreign nations in parcel post facilities?

Describe indirect exportation thru export merchants, thru commission houses and thru manufacturers' export agents. Distinguish particularly between the last two.

## CHAPTER VII

### COOPERATION IN FOREIGN TRADE'

1. *Need of cooperation.*—It has been pointed out at various places in this Text that our exports of manufactured articles—specialties and staples—are increasing in number. Of these, staples are the more competitive by nature. Their sale in foreign markets meets the severest competition, a competition which it is extremely hard for the American exporter to overcome because the laws of the United States place him at a disadvantage as compared with his foreign competitors. The most conspicuous handicap of the American manufacturer or merchant who enters the race with these competitors is his inability to combine or to cooperate with others as his foreign rival does.

It seems strange that uncertainty as to his legal status compels the American producer to indulge in cut-throat competition with his neighbors in order to market his products in foreign countries. This state of affairs is proving a serious obstacle to the efforts that are being made at present to increase the foreign trade of this country. It forces the American exporter to meet single-handed the strong combinations that exist, not only among his foreign selling

competitors, but also among the buyers of many of our staple commodities. An organized foreign demand is allowed to control our widely scattered supply. England permits combinations that our Sherman Anti-Trust Law declares unlawful; France encourages such combinations; and Germany goes even further by sometimes actually compelling its citizens to enter into them, as the history of the Potash syndicate proves.

2. *European methods.*—Not satisfied with encouraging the expansion of foreign trade by building up a powerful merchant marine, by creating an effective system of branch banks, and by investing billions of dollars in foreign markets, the leading commercial countries of Europe—and to a lesser extent Japan—have perfected foreign sale organizations that make it possible for the members to combine their efforts efficiently in both domestic and foreign trade.

In a summary of the report of the Federal Trade Commission which is entitled "Cooperation in American Export Trade," the situation in the most important commercial countries, as regards export combination and cooperation, is described as follows:

In Germany, prior to the war, there were 600 important cartels, i.e., combinations to control the market, embracing practically every industry in the Empire. Many dominated the export trade of their industries and carried on vigorous campaigns to extend their foreign business, to prevent competition among German producers in foreign markets, and to secure profitable prices. Thus the German dye-color industry operated as a unit in foreign trade under the leader-

ship of two great groups of allied producers, the Badische group and the Höchst-Casella group, which were working under agreement to avoid competition between themselves for 50 years. The manufacture and exportation of electrical equipment has been made one of the bulwarks of German foreign trade by two great companies, the Allgemeine Elektricitäts Gesellschaft and the Siemens-Schuckert, with numerous subsidiaries at home and abroad working in harmony with each other. Half of the \$150,000,000 worth of coal and coke exported annually was sold by one central selling agency, maintained by the great Rheinisch-Westfälische coal syndicate, of which the Prussian Government mines are members, and which embraces the bulk of all the coal and coke production of the Empire. Practically all the rapidly increasing and highly valuable iron and steel export business was handled by the single selling agency of the Stahlwerks Verband, the aggressive union of German iron and steel manufacturers which has actively fostered foreign business thru export bounties and other means.

In France and Belgium, syndicates of iron and steel, coal, glass, and other industries were strong factors in domestic and foreign trade. Silk-ribbon manufacturers of France and Germany conducted their export trade in accordance with a joint agreement. In Italy, Russia, Austria-Hungary, Switzerland, Sweden, Greece, Argentine, Chile and Ecuador, central organizations unite the interests of producers in various industries such as coal, iron, and steel, agricultural machinery, oil, sulphur, superphosphates, cement, matches, chocolate, embroidery, silk goods, watches, cotton goods, condensed milk, canned fish, currants, quebracho, iodine, cacao, etc.

In Japan an export organization of textile manufacturers is rapidly obtaining the rich cotton goods trade of North China. The trade in tea is controlled by a nation-wide "tea council." One great Japanese firm, which in itself combines manufacturing, mining, shipping, and merchandising enterprises, is rapidly extending Japanese trade in all lines thruout the far East, and the Japanese government is di-

rectly assisting the development of shipping, banking, and trading for foreign business.

British manufacturers have relied more fully upon an unusually effective merchandising organization for foreign trade, long established in foreign markets and giving British products a superior representation there, but in various important industries they have gone much further. Thus, most of the great coal-export business is done by powerful organizations, combining mine operations, marketing companies, shipping lines, and foreign distributing companies. This gives British coal its grip on the rich South American market. British cement manufacturers are united in a strong and successful union for the extension of their overseas trade. Recently a number of large British manufacturers of machinery of all sorts have formed the Representation for British Manufacturers, Ltd., an organization to handle their business in certain important foreign markets and to carry on an aggressive campaign for its extension. Similar organizations for foreign trade are in process of formation among other British manufacturers. In the electrical, cotton-textile, pottery, tobacco, wall-paper, iron and steel, and various other industries strong associations and combinations are important factors in foreign and domestic business.

*3. Isolation of the American exporter.*—It is against such powerful organizations that hundreds of comparatively small American producers and manufacturers must compete for foreign trade. Not less serious is the danger threatening the American seller from highly effective combinations of foreign buyers which he encounters in various markets. During the great European war this situation has been evidenced in striking examples. Again and again the American seller has had to submit to the dictation of foreign buying committees, some of which represent the

collective buying power, not merely of a single nation, but of groups of nations. The cotton-grower felt the weight of this power of organized demand during the year 1914 as well as during the early part of 1915.

4. *American copper abroad.*—But the war merely emphasizes a condition that exists even in normal times. John D. Ryan, president of the Amalgamated Copper Company, has shown, for the benefit of his own industry, the conditions that prevailed before the European war. He compiled figures covering a period of ten years, ending 1913, which prove beyond doubt that a number of large copper-producing companies, representing about one-half the copper production of this country, sold 2,580,000,000 pounds to domestic consumers at 15.21 cents per pound, delivered at home, while the foreign consumers got their 2,980,000,000 pounds at 14.38 cents per pound, delivered at foreign ports, that is, at a price more than 5 per cent below the domestic price. This deplorable condition is the result of a policy which allows buying forces to combine and organize while selling forces remain scattered.

5. *Prussian government and German potash.*—The policy of this country as regards the exportation of natural products is in strong contrast to that of the German Empire. Many will vividly remember the potash controversy of 1911. At that time the German government took the position that the potash deposits of Germany were a part of her great natural

resources, and that the production of these deposits for the exporting trade should be regulated in such a way as to bring the greatest possible returns from other parts of the world where the potash was needed and, again, in thus regulating the production, the German government would merely be conserving the resources of the country to the use of which its people were justly entitled. The problem was finally solved thru the formation of a government-controlled semi-compulsory syndicate, a form of combination which, in this country, would very probably have been declared as unlawful. The potash situation is only one illustration of the methods that Germany practises when such conditions prevail. In the case of the United States, the method of handling the supply of copper furnishes a similar illustration to that of the system adopted in Germany.

There are other cases of a like nature. Thus, our exporters of lumber, in selling to Australia and Europe, encounter conditions similar to those in the copper trade. Austrian textile manufacturers have a buying combination to import their raw cotton. The cooperative wholesale societies of Great Britain control organizations maintained by 14,000 cooperative societies. It is said that combinations of British coal brokers fix the contract price for bunkering ships at Newport News. And four London firms which, together, are known as the Fixing Board, daily set the price of silver for the world, and American mining companies must sell their silver for the English and

the great Indian market to one of these four houses.

It seems hardly reasonable to expect the American exporter to take a stand all alone against such combinations. A New York lawyer strikingly described the position of American exporters in the following words:

If you can imagine a squad of recruits, responding patriotically to their country's call for foreign service, paying for their equipment and training out of their own pockets, studying their equipment without any aid from the government except a correspondence course of instruction, and then, without any company or battalion drill, being sent to the front with the plaudits and best wishes of their country, and with the warning that if they ever drill or fight, as a co-ordinated army, or in any way, except as unrelated individuals, they will be liable to court-martial and public punishment upon their return, you have a very good idea of what your predicament is now.

6. *Smaller manufacturer handicapped.*—Naturally it is the smaller manufacturer who suffers most from the present state of affairs. The Federal Trade Commission sent out, in 1915, an elaborate questionnaire to manufacturers. One of the questions was, whether the manufacturer would like to be able to cooperate in foreign trade. Of the thousands of replies that were received, 85 per cent were in the affirmative.

Relatively few of the larger organizations of the country manifest a desire to enter into extensive co-operation in foreign trade. As a rule they are strong enough to finance and protect their own enterprises.

In one sense, the large American corporations, correspond to the European cartels. But the American combinations of large businesses in most cases include the manufacturing industry, while the German cartel usually has to do with the selling alone. Therefore, in the export business done by our large concerns like the United States Steel Corporation and the United Fruit Company, there is not the appearance of cooperative effort, because each firm is really a complete unit. The European cartel, on the other hand, is a good example of cooperation, for while the independence of the member concerns is preserved, they all form together, one great combination. As far as our large corporations are concerned, American methods differ only in form from the European.

Our smaller industrials seem to find that the cost of engaging singly in foreign trade is prohibitive and that the risk is too great. Warehousing and credit facilities are not so freely available to the small exporting manufacturer as they are to the large corporation. It is claimed by those who do not believe in the need of cooperation among American exporters, that the export commission house renders the service that cooperation is intended to perform. It is true that a commission house is in the nature of a joint selling agency of various manufacturers and, as such, offers certain advantages that cooperation is meant to secure. But, if possible, it is preferable to build up a joint selling agency of manufacturers on a cooperative basis, utilizing the manufacturers' own resources and

facilities. In any case, the American manufacturer should be freed from the legal impediments that the anti-trust law places in his way when he attempts to extend foreign sales.

7. *Advantages of cooperation.*—There are many engaged in foreign trade who are convinced that it would probably be possible to remove the difficulties which today hamper our small manufacturers in their efforts to increase their exports, or that at least these difficulties could be lessened, if our manufacturers should be allowed to cooperate. In connection with the services of the forwarding agent, it was shown how, by means of cooperation, duplication of clerical work can be avoided by consolidating a number of small shipments into one large one. But there are many other advantages that several concerns interested in foreign trade can derive by working together.

The conditions of foreign markets must be investigated with a view to securing information on the following important points: the adaptability of products to various markets, the right character of commercial representatives, the competition that prevails in any given field, transportation rates and facilities, insurance, tariffs, methods of payment, and finally—and this is very important—the credit standing of the prospective clientele. The small manufacturer cannot afford the expense of such a broad and thorough preparation, but if that expense is distributed among many, there is justification for taking the necessary steps. Furthermore, the reduction of the

selling expense that results from its distribution among several concerns, may allow for a reduction in the sales price that will materially increase the salability of the product.

8. *Various forms of cooperation.*—Cooperation in foreign trade, in the widest sense, includes many phases. It involves informal agreements relating solely to foreign trade, between two or more individuals or concerns. It may result in an incorporated joint selling agency, or possibly in a powerful combination like the foreign cartel and the syndicate. It is not likely that, in the near future, the interpretation which the people of this country now put upon business relationship will undergo such a change that the cartel or the syndicate will be introduced into our economic life. The strength of this form of cooperation depends largely upon the protection granted to it by the courts; the latter fine any parties that break their agreements, and insist upon the payment of the fines. Since the cartel and the syndicate have proved most successful in European countries, a description of their general features and policies may prove valuable to the American business man and may, perhaps, enable him to work more successfully for the establishment of a new form of cooperation, especially adapted to American conditions.

9. *German cartels and syndicates.*—Particularly in Germany the cartel and the syndicate have been developed to a high degree of perfection. While in

the American trust, or holding company, two or more concerns are united in an ownership that may be either complete or partial, in the German cartel each of the member firms possesses absolute independence. The cartel, as a whole, merely supervises the member organizations in their various activities to insure that none breaks its agreement. Without interfering with the manufacturing end, the cartel generally serves as a joint buying agency, and, in that capacity, secures raw material at a price lower than that which an individual firm would have to pay.

There are several different kinds of cartels. Some have to do only with the regulation of business methods—in other words, their work concerns terms of payments, terms of sales, distribution of samples and the like. The price cartel, as its name implies, aims to control prices, and to this end attempts to influence the contracting parties to come to an agreement concerning prices, and to publish a common price-list. In the highest form of the price cartel, each of the individual member firms is subject to one of the following conditions: it must deal with one specified class of customers; it must do business in one specified territory; it must produce one specified class of commodity, or, if it deals in a common commodity, it must produce only that amount which the cartel shall specify. By establishing a maximum output for member concerns, the cartel can exercise a powerful influence over prices. Finally, the cartel can equal-

ize profits by pooling the excess profits made by some member firms, in favor of those that fail to reach a given standard of earnings.

The syndicate is a sales cartel. It is a joint sales department composed of all the members, who retain independent management only as regards their factories and mines.

10. *Strong export policies.*—The stronger cartels in Germany maintain a firm export policy. In many cases they pursue the practice of charging for their exports lower prices than those which the domestic consumer is asked to pay. The justification of this policy lies in the fact that, on account of the magnitude of present-day capital investments in factories, it is imperative to strain every effort to keep the factory going to its greatest capacity. The foreign market is therefore sought as a valuable outlet for excess production, particularly in times when the home market is dull. To increase further the export trade of their respective members, as early as 1891, several cartels and syndicates adopted the export-bounty policy. Since that time, various exports, especially iron and steel manufacturers, have been subsidized. The cartels controlling the production of coal, iron, raw steel and similar products, have supplied inland manufacturers with materials at reduced rates, when such materials went into export manufactures. This policy is one of the secrets of the extraordinary success of the exporting industries of Germany in the world market.

These cartels and syndicates are, in turn, often subsidiaries of great financial institutions that control their policy. A network of financial interests with ramifications all over the world, makes the German export organization a powerful combination of German finance and industry, encouraged by the government. The individual American will compete with this tremendous force in his effort to conquer foreign markets in vain, unless he follows the example of the German and makes use of strong business combinations. The German method—undoubtedly the best in Europe—is only one illustration of European practice.

11. *Greater necessity for cooperation after the European war.*—It has been repeatedly stated that this tendency to combine and cooperate in order to gain strength and efficiency will become even stronger after the European war than it is now. The will to conquer, the ability to organize and finally, the willingness of the individual to subordinate himself to the interests of the whole group will be greatly emphasized as a result of the conditions brought about by this war; and all these factors, combined, will go far to prevent the material destruction and personal losses caused by the war from seriously hurting European commerce and industry. There is, consequently, an increasing need that the United States place those who are to fight its commercial battles upon an equal footing with their opponents.

12. *Recent attempts to bring about cooperation.*

—Encouraging steps have been taken in this direction. The formation of the American International Corporation represents the most important effort so far to bring about the proper coordination between banking, transportation, commercial and manufacturing interests. This organization, which stands as a landmark in a new era of American business, should be the forerunner of many similar institutions.

Nor are pioneers in trade cooperation lacking. Altho it is by no means a new idea to attempt to develop American trade in a particular market thru the establishment there of a local enterprise controlled by a combination of manufacturers, nevertheless experiments of this sort have, up to this time, met with little success. As far back as thirty years ago, a combination of six or eight American manufacturers of different kinds of shoes, established a syndicate in London which, during the time of its existence, was fairly successful and stimulated the American exports of boots and shoes to Europe.

*13. International Manufacturers' Sales Company of America.*—Whether or not recent efforts of this kind will prove more successful, time alone can tell. A conspicuous example of this new development in the American export business is found in the creation of the International Manufacturers' Sales Company of America. This is a \$100,000 corporation with headquarters at Chicago, organized, financed and controlled exclusively by manufacturers. Its principal

object at present is to foster the trade of its members in Russia, and later on to do the same thing in other countries. Since reciprocity is the best foundation of foreign trade, the company also aims to develop the exportation of goods of Russian origin from Russia to the United States.

The stock is held by fifty manufacturers of non-competing lines and each manufacturer has equal rights as regards all operations, property and earnings of the company. An investment of two thousand dollars gives a manufacturer the right to establish his own branch house in Russia. The Chicago office, the real center of the organization, is controlled by a board of directors. The members are elected from among the manufacturers, who are members of the corporation. Thus, full control at all times is in the hands of the manufacturers themselves.

Goods are billed to the company, either at the same price as those at which the manufacturer bills goods to his branch house here, or else at regular export prices. The problem of credit, which has been more or less of a stumbling block in the way of direct trade with Russia, is solved by the cooperation of leading banks.

It is difficult to foretell whether or not certain failings of human nature such as jealousy, personal greed and stubbornness, resulting from too great personal independence, will wreck this structure which is founded upon cooperation. Up to January 1917

five branches had been established in Russia. The president reports that the volume of business done so far surpasses all expectations. All those who wish to see cooperative methods introduced into foreign trade of this country will watch with the greatest interest the operations of this concern, which represents only one of several experiments along the same line.

14. *Plan of Mr. W. S. Kies.*—The plan described above is based largely upon the suggestions that Mr. Kies of the National City Bank presented in an address before the American Academy of Political and Social Science. These suggestions are given below:

1. The corporation is to be impartially organized in a manner fair to all its members, and the management selected with expert ability as the sole test.

2. Membership in the Board of Directors to be arranged so that in due course of time every member shall receive representation. To avoid possibility of unfair treatment, there will be provided a permanent arbitration committee, to be selected in an impartial manner, and to be made up of persons having no interest in the industry. This may be invoked by any member.

3. Each member shall, at the beginning of the year, report to the Export Corporation the amount of its product available for export during the year, the conditions of delivery and of acceptance of orders, at the price at which it is willing to sell in a foreign market. These tenders may be changed from time to time, under such conditions as may be thought advisable, and special quotations of additional quantities may be named whenever desirable.

4. The sales force of the corporation will undertake the disposal of the exportable surplus of its members on the terms

and conditions specified, obtaining the best price possible, making use of the export commission houses, the local representatives, the trained salesman and every agency of value in building up foreign trade. The difference between the price quoted and the price obtained shall belong to the Export Corporation as a profit, and upon all sales all members shall pay to the Export Corporation the same percentage as a commission.

5. Whenever a demand shall be found to exist in a particular market for a certain quantity of goods which must be sold at a lower price than quoted by any of the members, in order to meet foreign competition, all members shall be notified of the possible order, and given an opportunity to meet the foreign price. Competitive bids will be received, and the lowest bidder receive the order; or, if there are a number of low bidders, the order be divided.

6. All profits, after deducting all expenses, and setting aside such a sum as shall be deemed necessary for promotion, advertising, establishment of permanent quarters, etc., shall be distributed equally among the members.

7. The Export Corporation shall provide an expert who shall collect statistical data and information of value to the industry, which shall be distributed promptly, and under the same conditions, and in the same manner, to all members. The Export Corporation shall also have on its staff an efficiency engineer, who shall make intensive study of methods of production in the industry, cost of production, competitive margins, and the productive capacity of various plants. His services shall be available to any of the members for the purpose of giving advice as to the development of greater efficiency in production, diminishing the cost of production, or increasing the output. He shall also give to all members technical advice as to the best methods of meeting peculiar requirements of foreign markets.

8. The Export Corporation may also act as a purchasing agency for raw materials. Being able to purchase in large quantities, as a representative of many consumers in a given

line, it will be able to buy in foreign markets at the lowest price. All members will be entitled to the Corporation's services in this respect, upon the same terms.

15. *Legal status of cooperative organizations.* —There are in existence now several other instances of cooperative effort among American manufacturers and producers in foreign trade, but all of them have to do with competitive lines of trade. What is needed, however, more than anything else, is the cooperation of firms that produce "competing" commodities—that is, commodities which are similar. But the probability of success in this connection is not so great since our manufacturers fear the application of the anti-trust laws, and their fear is naturally detrimental to the energy and initiative that are necessary.

These statutes, as they are expressed, do not differentiate foreign trade from interstate trade—for example, the Sherman Act is prohibitory with respect to foreign trade, as much as it is with regard to domestic trade. Altho enacted primarily for the protection of the domestic consumer, the anti-trust laws, largely because of the lack of clarity in the wording, possess this prohibitory force as regards foreign trade. Until these laws are amended so as to allow our manufacturers to cooperate in foreign trade, there can be no general participation in American export trade by the rank and file of small American manufacturers.

What we want is an answer, and a positive answer; we do not want the surmises of lawyers; we do not want the best

wishes of gentlemen who are temporary incumbents of government positions, and who tomorrow may not be there. We do not want four-year dispensations from attorneys-general who will be out of office four years from now. We want the definite, positive answers that business men require in any enterprise in which they are asked to put their labor and risk their capital.

16. *Permissive legislation needed.*—The way to bring about that cooperation in our export trade which is necessary for successful ventures in foreign business, is to pass permissive legislation that shall exempt foreign trade from the impediments placed upon it by the anti-trust laws.

This permissive legislation should be readily passed by Congress. The voluminous debates that preceded the passage of the Sherman Act in 1890, while they covered every possible phase of the subject, failed to suggest or hint in the remotest way that the consumers of other countries should be protected by the statute. This country, like every other, restricts the scope of its legislation to the needs and welfare of its own people, and naturally assumes that other countries will take care of their own citizens. Therefore, no statute is presumed to have extra-territorial application.

17. *Objection to forcing trade exemption.*—Those who object to the exemption from the anti-trust laws of those engaged in foreign trade argue that cooperation in export trade would somehow react unfavorably upon the domestic trade. But, as a matter of fact, our courts are fully in a position, and well prepared,

to ward off any attack that might be directed against the domestic consumer by an export cooperative association or other export combination. It is further claimed by those who opposed cooperation or combination in export trade, that it might be used to the detriment of those who remain outside of the cooperative organization. Apart from the fact that the Federal Trade Commission has full power to prevent unfair methods of competition, it is hardly to be expected that occasion for friction between those who cooperate and those who remain outside will arise.

The outsider either does not wish to join the cooperative organization or is not permitted to do so. The man who does not wish to enter believes that he can do best by relying upon his own abilities and resources. Perhaps he hopes that he will indirectly benefit from the educational work performed by the organization without becoming a member. To establish compulsory cooperative organizations seems preposterous. The other group of outsiders—those who are not allowed to join cooperative organizations—consists of persons who are excluded because of lack of experience or of financial strength. They would do better, in any event, to combine among themselves rather than to form a weak adjunct of a combination of manufacturers stronger than themselves.

**18. *Clayton Anti-Trust Law and foreign trade.***—The fact that great care was taken to exclude from the Clayton Anti-Trust Act, which was passed in 1914,

any thing relating to foreign trade, shows that Congress is aware of the difference between domestic and foreign business, as regards the interests of the domestic consumer.

Many half-way measures have been suggested with respect to relieving the exporter of the burden imposed upon him by the anti-trust laws. Some have suggested, for example, that exporters who cooperate in foreign trade be exempted from the penalties of the Sherman Law, provided they file their plans with the Federal Trade Commission, and obtain from the Commission an order approving of those plans. Others have proposed that the Federal Trade Commission, or some other judicial body, or perhaps the attorney-general, be given the right to determine, whether or not in any given case, foreign trade combination requires the application of the anti-trust laws. This last proposition was indorsed by the United States Chamber of Commerce.

19. *Federal Trade Commission.*—The inadequacy of such compromise proposals has been recognized by the Federal Trade Commission itself, which was formed in 1914. President Wilson said:

The Federal Trade Commission is authorized and empowered to inquire into and report to Congress not only upon the conditions of trade in this country, but upon the conditions of trade, the cost of manufacture and transportation, and all questions of combinations which affect international trade between Europe and the United States. It has the

full power which will guide Congress into scientific treatment of all questions of international trade.

The Commission, which is to be our expert guide, in its summary report issued in May, 1916, strongly recommended that Congress pass declaratory legislation which should remove all doubt regarding the legality of combinations in foreign trade. The report in part reads as follows:

By its investigation the Commission, however, has established the fact that doubt as to the application of the anti-trust laws to export trade now prevents concerted action by American business men in export trade, even among producers of non-competing goods. In view of this fact and of the conviction that cooperation should be encouraged in export trade among competitors as well as among non-competitors, the Commission respectfully recommends the enactment of declaratory and permissive legislation to remove this doubt.

The Commission feels that it would fail of its duty if it did not urge the pressing need of such action immediately. If American business men are to make the most of the great opportunities now before them, are to build securely in foreign trade, and are to avoid disaster in the shock of the stern and determined competition that will doubtless follow the war, they must at once perfect the organization demanded by the conditions of international trade.

**20. Webb Bill.**—The suggestion of the Commission took tangible form when Representative Webb, at the instigation of the Federal Trade Commission and the Department of Commerce, introduced a bill which contains the following provisions: That nothing contained in the anti-trust laws shall be construed as declaring to be illegal, either an association

which has for its sole purpose the fostering of export trade and which actually engages solely in such trade, or an agreement made, or act done, in connection with export trade by such associations, provided such agreement or act is not in restraint of trade within the United States. The bill was strongly recommended by leading exporters and manufacturers in this country, and was passed by the House but, owing to lack of time, never reached the Senate in the first session of the 64th Congress.

21. *The Export Association of Canada.*—The most significant example of cooperation among Canadian exporters is the recently formed society known as the Export Association of Canada. It was incorporated in the summer of 1915. According to its prospectus, its shareholders include ninety-five Canadian manufactures, representative of practically every line of business, as well as of many of Canada's largest companies.

The purpose of the new institution is to build up for Canada a permanent trade with other portions of the British Empire and other countries. The functions which the Association sets up for itself are to create a favorable strategical position in outside markets for Canadian industry as a whole; to secure detailed information and actual orders for its members; to introduce the representatives of Canadian firms to the most important buyers in other markets; to find reliable export agents for its members in markets where representation is required; to collect and make

shipments of export orders, and where possible to finance the same; to organize production in Canada which will make possible the successful execution of large export orders.

The Association is endeavoring especially to concentrate its efforts in selling, shipping and financing, to make it possible for a large number of the smaller manufacturers, many of whom have hitherto done little or no export business, to open up profitable connections abroad. At the same time its managers have been able to attract some of the larger manufacturers who have their own organizations for doing business abroad by promising to prepare in foreign markets a general strategical field within which they could follow their own objectives.

22. *Other associations.*—There are a number of commercial organizations which directly or indirectly do a good deal to increase Canada's foreign trade. The various Boards of Trade or Chambers of Commerce and their provincial associations, which are by no means concerned exclusively with foreign trade, do a good deal to acquaint manufacturers of the needs and opportunities of foreign trade and to disseminate information and advice in regard to shipping, credits, rates, insurance, etc.

#### REVIEW

Why is cooperation in foreign trade desirable? Why is the American exporter at a disadvantage in competing for foreign trade?

Describe the purpose and operation of the German cartels.

Describe the International Manufacturers Sales Company of America.

What plan of cooperation is proposed by Mr. W. S. Kies?

How do the anti-trust laws hamper the American exporter?

Explain the measures proposed for removing the handicaps of existing legislation.

Describe the nature and work of the Export Association of Canada.

## CHAPTER VIII

### THE TECHNIC OF EXPORT TRADE

1. *Soliciting indents.*—The origin of export trade is the foreign order, or the indent. There are, however, several actions which ordinarily precede the manufacturer's receipt of a foreign order. Before a foreign customer places an order, he wishes to be informed concerning the price of the goods, as well as their quality and their general nature. Correspondence, and often the sending of samples, precedes the placing of the order. If a manufacturer has so established himself in a foreign market so that his products are known, these preliminaries are not necessary. Nor is it generally necessary to send samples when the commission house or any middleman intervenes.

Until a certain brand of goods is introduced, however, either in the domestic market or abroad, the sample is sometimes not only an important, but even a vital element in successful export trade, for the foreign customer will often insist upon knowing exactly the nature of the goods which he is to receive.

2. *Sending samples.*—Generally speaking, the manufacturer should steer a middle course as regards his sample policy. On the one hand, he should use samples freely when to do so will increase his sales; on the other hand, he should avoid sending samples

out indiscriminately. He should, at all times, be extremely careful not to fall into the hands of "sample collectors." The samples should be accompanied by personal letters and should be addressed only to carefully selected prospects. The question of charging for samples is also a delicate one. If a charge is made, a liberal discount should be allowed on the regular price, but it should be kept in mind that too great a reduction arouses suspicion as to the real value of the goods represented by the sample. It seems unwise to send a sample to a foreign customer, unless it has been requested, since in many cases the consignee is caused considerable trouble and expense in connection with getting it thru the customs.

*3. Samples issued represent goods.*—The most important point to remember in sending out samples is that they should by all means be representative of the goods that they advertise. If a customer, judging by samples that he has received, orders goods and these do not measure up to the standard of the samples, endless trouble is apt to arise. To disappoint the foreign buyer is much more serious than to make this mistake in the case of a domestic buyer, since in the former instance the delay resulting from the distance separating the two parties renders apologies useless—in fact, almost impossible. The British Sale of Goods Act—passed in 1893—which still applies in many markets of the world, includes the following provisions:

In the case of contracts for sale by sample there is an

implied understanding: (1) That the bulk shall correspond with the sample in quality; (2) that the buyer shall have a reasonable opportunity of comparing the bulk with the sample; (3) that the goods shall be free from any defect rendering them unmerchantable, which would not be apparent on reasonable examination of the sample.

These represent the minimum requirements that exporters should fulfil in sending abroad samples that will form the basis of future sales.

**4. Price policy.**—The next question to be answered is, What price should be quoted to the foreign buyers? This point was touched upon in the discussion concerning the various agents of foreign trade, and the difficulty that arises from the employment of commission houses, and exclusive agents was explained. The use of various agents at the same time, makes the question of price policy a rather complicated one. Furthermore, many items enter into the make-up of the foreign sales price which do not appear in domestic business, as, for example, ocean freight, custom-house duties, dock dues, fluctuations in foreign currencies, and gratuities and fees for custom house brokers.

Prices must be varied according to the class of customers, the quantity of goods bought, and the territory in which the customers are located. In export trade the principle of "one price for all" can not be applied.

In most cases cash discount should not be given, since the same discounts that might induce a domestic buyer to pay in cash within the time specified in the

terms of sale, might have no effect upon a foreign buyer, because the rate of interest in his country is much higher than it is here. Also, the complicated method of quoting discounts, as it is often used in our domestic business, should be avoided in foreign business, since foreign importers are often unable to grasp the meaning of such quotations. Prices should be quoted either in the currency of the importing country, or else in sterling, unless the dollar has been successfully introduced.

5. *Details of quotations.*—In quotation forms, the following features should be specifically and clearly indicated: the place where the goods are to be delivered; the manner in which the goods are to be packed; the approximate time when shipment is to be made; the liabilities assumed by the manufacturer; the forms of marine insurance that will be supplied in case specific instructions are given by the buyer; and finally, the terms of payment. The length of time for which quotations hold good should be definitely stated. It is unwise to quote prices "subject to change without notice."

According to place of delivery, discrimination is made between F. O. B. and C. I. F. prices. C. I. F. means "cost, insurance and freight"; F. O. B. should be understood to mean "free on board the outgoing ocean vessel." The F. O. B. price, then, ought to include all charges for packing, railroad freights, lighterage and dock dues, if any, incurred in placing the goods on board the steamer. Unfortunately the

term is being abused by many manufacturers, who quote "F. O. B., factory," or "F. O. B., New York," meaning thereby, in the first case that the price includes only those charges up to and including the time when the goods were placed in the railroad cars at the factory sidings; and in the second case, merely that freight charges are paid for up to the time the goods arrive in New York. This loose way of using the term F. O. B. has given rise to much misunderstanding and consequent discontentment on the part of the buyer.

If the charges for placing the goods on board the vessel are not included in the price, the term F. A. S., meaning "free alongside steamship," is used. The expense for hoisting the goods into the vessel is usually included in the freight charge, so in American exporting practice F. A. S. has the same meaning as F. O. B. (See example of F. A. S. contract, pages 156-164.)

As has already been said, the letters C. I. F. stand for "cost, insurance and freight." In other words, the C. I. F. price includes all expenses up to the time the goods are landed, but it does not include the foreign import duty, the landing charges, or any other item. In this respect the C. I. F. price differs radically from the "F. O. B. destination" price, which includes all the items exempted from the C. I. F. price. A question might arise as to the nature of the insurance to be included in the price that is quoted.

Generally speaking, a "free of particular average" policy is considered sufficient. It is advisable, however, when insurance is included in the price, to state distinctly to what kind of insurance reference is made.

The object of quoting C. I. F. prices is to enable the foreign customer to ascertain exactly what his goods will cost him at the seaport of his country. The expense of removing the shipment from the steamer can be calculated more easily by the consignee than by the exporting manufacturer. This fact influences the exporter to favor the quotation of the C. I. F. price rather than the "F. O. B. destination" price. In each case, the liabilities of seller and buyer under C. I. F. terms, tho largely regulated by custom and commercial law, should be set forth clearly in order that all possibility of misunderstanding in regard to responsibility may be avoided. The facsimile of a C. I. F. contract given on page 156 shows a detailed enumeration of the conditions of sale.

Variations of the C. I. F. price are the C. F. and the C. I. F. & E. The first of these two explains itself. The second includes, in addition to the elements of the C. I. F. price, the item of exchange. This quotation is used more frequently in trading with Australia and South Africa than in trading with any other countries.

The question of foreign credit-ratings and of arrangements in regard to the payment of the bill will be treated in another Text.

## FOREIGN TRADE

## UNITED STATES STEEL PRODUCTS COMPANY

GENERAL OFFICE NEW YORK, U. S. A.

Exporters of the Products of

CARNEGIE STEEL Co.

AMERICAN BRIDGE Co.

ILLINOIS STEEL Co.

THE LORAIN STEEL Co.

AMERICAN STEEL &amp; WIRE Co.

NATIONAL TUBE Co.

AMERICAN SHEET &amp; TIN PLATE Co.

SHELBY STEEL TUBE Co.

TENNESSEE COAL, IRON &amp; RAILROAD Co.

No. .... 19....

CONTRACT COVERING SALE OF ..... BY  
UNITED STATES STEEL PRODUCTS CO.

To .....

Description	
Price	
Payment	
Quality	
Specifications	Specifications shall be furnished to the seller by the buyer in substantially equal monthly quantities, beginning on or before the first day of ..... , 19.... and ending on or before the last day of ..... 19.... Buyer's failure to furnish specifications, as aforesaid, may at seller's option, without notice to buyer, be treated and considered as a waiver on the part of the buyer of all right to demand any subsequent delivery of the unspecified portion of the goods.
Time of Shipment	
Remarks Conditions of Sale	This contract is subject to Conditions of Sale F. A. S. Vessel printed on back hereof. It is understood that the seller does not manufacture the materials mentioned herein, but is to obtain them from such manufacturers as it may select. Such selection shall be in the absolute discretion of the seller and shall in no way affect any of the provisions of this contract,

but this right shall not relieve the seller from its obligation to furnish material of the kind and quality and at the cost herein specified.

UNITED STATES STEEL PRODUCTS CO.

Accepted .....  
.....

#### CONDITIONS OF SALE F. A. S. VESSEL

The seller referred to in these Conditions of Sale is understood to be the UNITED STATES STEEL PRODUCTS COMPANY.

1. It is understood and agreed that f. a. s. vessel means F. A. S. Vessel delivery by the carriers alongside the vessel or at the wharf, pier, or other customary place of receiving goods destined for shipment by vessel. The seller may, at its option, tender to the purchaser or his agent the usual ship's receipt or a prepaid railroad bill of lading from the works to the port of shipment, providing for free delivery by the carriers within the usual lighterage or railroad delivery limits of the port, and the tender of such ship's receipt or railroad bill of lading shall be full and final delivery. In every case, the purchaser agrees to furnish the seller, promptly after the sailing of the vessel, with a Custom House bill of lading properly signed, checked and endorsed, as evidence of exportation.

In case the seller elects to tender to purchaser the usual ship's receipt, the purchaser agrees to furnish seller, immediately on the arrival of the goods at port of loading, the name of vessel by which shipment is desired; and the seller undertakes to place the goods alongside vessel, if sufficient time is allowed the railroad or transportation company, and the vessel in question will receive them, but the seller does not assume any liability for expenses arising from failure of the railroad or transportation company to make delivery within the specified time.

In case the purchaser does not supply the seller, promptly upon arrival of goods at port of loading, with name of vessel and such other shipping instructions as may be necessary, or, in case purchaser designates a vessel, of which the date of sailing is such that material cannot be held on cars or in railroad warehouse without charges accruing, (1) any demurrage or other charges

**FOREIGN TRADE**

made by the railroad company for detention of cars, unloading, storage, etc., and any damage to the goods consequent upon such detention or unloading will be for purchaser's account and risk, and (2) the seller may, at its option, tender to purchaser an order on the railroad company to deliver the goods to the purchaser at the railroad dock, and the tender of such delivery order shall be full and final delivery.

**Execution of  
Orders or  
Shipment of  
Goods**

2-a. The seller shall not be liable for failure to perform this contract in whole or in part, if such failure is due to fires, strikes, disputes with workmen, war, civil commotion, epidemics, floods, accidents, delays in transportation, shortage of cars or other causes beyond the reasonable control of the seller or of the manufacturer; nor shall these exemptions be limited or waived by any other terms of this contract whether printed or written; such contingencies shall not release the purchaser from his obligation to pay for the goods in accordance with the terms of sale. Provided, however, that in the event of such unavoidable delay the purchaser may, subject to previously obtaining the consent of the seller, cancel such portion of the goods already specified as is not manufactured nor in process of manufacture at the time his request to cancel reaches the manufacturer's works.

2-b. The seller may ship any portion of the goods as soon as completed at the manufacturer's plant, and payment for that portion of the goods shipped shall become due in accordance with the terms of payment herein specified. Insistence upon suspension of manufacture or suspension of any shipment if not acquiesced in by the seller may be treated by the seller as a wrongful termination of the contract on the part of the purchaser; and the purchaser shall thereupon be liable for all damages arising out of such termination.

**Specifications  
and Shipping  
Instructions**

3. In the event of the purchaser failing to furnish complete specifications and instructions within the time specified in the contract, the seller shall be entitled, at its option, to cancel such portion of the contract as may remain unexecuted, or to make shipments in accordance with the specifications and instructions which the purchaser may have furnished for previous shipments on account of the same or a previous contract.

**Inspection**

4. If the purchaser requires inspection, it must be

## TECHNIC OF EXPORT TRADE 159

made at manufacturer's plant, and such inspection and acceptance shall be final. Reasonable facilities will be afforded to inspectors representing the purchaser to inspect material and to apply, previous to shipment from the manufacturer's plant, tests to which the seller has previously agreed.

**Claims**        5. Claims will be considered by the seller only when made promptly after receipt of the goods and due opportunity has been given for investigation by seller's own representatives. No claims for labor nor involving consequential damages will be recognized. Goods must not be returned except by permission of seller.

**Damage in Transit**        6. The seller agrees that the goods shall leave the manufacturer's plant in good condition, and the purchaser assumes all risks of rust or other damage during transportation.

**General**        7. The goods are to be exported to the destination stated by the purchaser at the time the inquiry is made, and the purchaser guarantees that the goods will be shipped to that destination, and agrees to furnish, if required by the seller, a Landing Certificate duly signed by the Customs Authorities at the port of destination, certifying that the goods have been landed and entered at that port.

The seller reserves the right, even after partial payment on account of any contract with the purchaser, to require from the purchaser satisfactory security for the due performance of his obligations, and refusal to furnish such satisfactory security or the failure of the purchaser to execute any of his obligations under this or any other existing contract will entitle the seller, upon notice to the purchaser, to suspend shipments or cancel the contract, or so much of it as may remain unexecuted, without prejudice to any claim for damages the seller may be entitled to make.

**Terms**        8. Unless otherwise stated in quotation, seller's terms are understood to be net cash in exchange for relative ship's receipt, to be tendered to bankers approved by the seller with whom irrevocable credit is to be established when order is entered and before goods are manufactured.

9. Every quotation is based on the understanding that,

if accepted and the seller should elect, formal contract satisfactory to the seller will be signed by the purchaser.

### UNITED STATES STEEL PRODUCTS COMPANY

GENERAL OFFICE NEW YORK, U. S. A.

Exporters of the Products of

CARNEGIE STEEL Co.

AMERICAN BRIDGE Co.

ILLINOIS STEEL Co.

THE LORAIN STEEL Co.

AMERICAN STEEL & WIRE Co.

NATIONAL TUBE Co.

AMERICAN SHEET & TIN PLATE Co.

SHELBY STEEL TUBE Co.

TENNESSEE COAL, IRON & RAILROAD Co.

No. .... 19....

CONTRACT COVERING SALE OF ..... BY

UNITED STATES STEEL PRODUCTS CO.

To .....

Description	
Price	
Payment	
Quality	
Specifications	Specifications shall be furnished to the seller by the buyer in substantial equal monthly quantities, beginning on or before the first day of ..... 19.... and ending on or before the last day of ..... 19.... Buyer's failure to furnish specifications, as aforesaid, may at seller's option, without notice to buyer, be treated and considered as a waiver on the part of the buyer of all right to demand any subsequent delivery of the unspecified portion of the goods.
Time of Shipment	

Remarks	This material is produced in part from manganese ore and/or chrome ore from British Possessions, and it is understood and agreed that this sale is subject to the restrictions of the "consumer's guarantee for ores." See our circular letter of April 20, 1916.
Conditions of Sale	<p>This contract is subject to General Conditions of Sale printed on back hereof.</p> <p>It is understood that the seller does not manufacture the materials mentioned herein, but is to obtain them from such manufacturers as it may select. Such selection shall be in the absolute discretion of the seller and shall in no way affect any of the provisions of this contract, but this right shall not relieve the seller from its obligation to furnish material of the kind and quality and at the cost herein specified.</p>
Accepted	UNITED STATES STEEL PRODUCTS CO. .....

#### GENERAL CONDITIONS OF SALE

The seller referred to in these Conditions of Sale is understood to be the UNITED STATES STEEL PRODUCTS COMPANY.

C. I. F. and  
C. & F. Sales The purchaser assumes all risks of transportation except such as are covered by the legal responsibility of the carriers (or, on c. i. f. sales, by the insurance), and accepts and agrees to all usual and customary clauses in the bills of lading as well as such additional clauses and stipulations as may be lawfully imposed by the carriers as a condition of their accepting the goods for transportation. The tender to the purchaser or his authorised agent of shipping documents, consisting of proper bills of lading, and, in the case of c. i. f. sales, negotiable insurance certificate, constitutes full and final delivery on the part of the seller, and entitles it to immediate payment in full for goods shipped, without prejudice to the subsequent adjustment of just claims on the part of the purchaser.

Unless otherwise agreed in writing, the purchaser will receive the goods at destination ex ship's tackles as fast as vessel can discharge, and it is further agreed that the seller is entitled to select the route, port of shipment and

## FOREIGN TRADE

vessel with privilege of stopping in transit at port or ports. Unless otherwise agreed in writing, any charges at destination, including lighterage, wharfage or landing charges, dues, duties, etc., are not included in seller's price.

**Insurance**

2. Unless otherwise stated in quotation, the insurance on c. i. f. sales is understood to be marine insurance only to destination covered by sales price, free of particular average, English conditions, for a sum equal to the amount of the invoice plus ten per cent. Other forms of insurance, if obtainable, must be agreed upon in writing prior to acceptance of order, the additional cost to be for the account of the purchaser, but no form of insurance will protect against rust or other damage unless caused by a peril of the sea.

**Consular  
Invoices**

3. All consular fees for legalising invoices, stamping bills of lading or other documents required by the laws of the countries of destination, are payable by the purchaser and are not included in the seller's prices. If not otherwise arranged, the seller is authorised to pay same for purchaser's account, and add the cost to the invoice.

Seller will take out consular documents as agent for the purchaser, who must state how the goods are to be declared, and, if the purchaser does not furnish the necessary instructions, seller will make declaration according to its best judgment, but will not in any case be responsible for any fines or other charges due to errors or incorrect declarations.

**Execution of  
Orders of  
Shipment of  
Goods**

4-a. The seller shall not be liable for failure to perform this contract in whole or in part, if such failure is due to fires, strikes, disputes with workmen, war, civil commotion, epidemics, floods, accidents, delays in transportation, shortage of cars or other causes beyond the reasonable control of the seller or of the manufacturer; nor shall these exemptions be limited or waived by any other terms of this contract whether printed or written; such contingencies shall not release the purchaser from his obligation to pay for the goods in accordance with the terms of sale. Provided, however, that in the event of such unavoidable delay the purchaser may, subject to previously obtaining the consent of the seller, cancel such portion of the goods already specified as is not manufactured nor in process of manufacture at the time

his request to cancel reaches the manufacturer's works.

4-b. The seller may ship any portion of the goods as soon as completed at the manufacturer's plant, and payment for that portion of the goods shipped shall become due in accordance with the terms of payment herein specified. Insistence upon suspension of manufacture or suspension of any shipment if not acquiesced in by the seller may be treated by the seller as a wrongful termination of the contract on the part of the purchaser; and the purchaser shall thereupon be liable for all damages arising out of such termination.

Specifications  
and Shipping  
Instructions

5. In the event of the purchaser failing to furnish complete specifications and instructions within the time specified in the contract, the seller shall be entitled, at its option, to cancel such portion of the contract as may remain unexecuted, or to make shipments in accordance with the specifications and instructions which the purchaser may have furnished for previous shipments on account of the same or a previous contract.

Inspection

6. If the purchaser requires inspection, it must be made at manufacturer's plant, and such inspection and acceptance shall be final. Reasonable facilities will be afforded to inspectors representing the purchaser to inspect material and to apply, previous to shipment from the manufacturer's plant, tests to which the seller has previously agreed.

Claims

7. Claims will be considered by the seller only when made promptly after receipt of the goods and due opportunity has been given for investigation by seller's own representatives. No claims for labour nor involving consequential damages will be recognised. Goods must not be returned except by permission of seller.

Damage in  
Transit

8. The seller agrees that the goods shall leave the manufacturer's plant in good condition, and the purchaser assumes all risks of rust or other damage during transportation.

General

9. The goods are to be exported to the destination stated by the purchaser at the time the inquiry is made, and the purchaser guarantees that the goods will be shipped to that destination, and agrees to furnish, if required by the seller, a Landing Certificate duly signed by the Customs Authorities at the port of destination,

certifying that the goods have been landed and entered at that port.

The seller reserves the right, even after partial payment on account of any contract with the purchaser, to require from the purchaser satisfactory security for the due performance of his obligations, and refusal to furnish such satisfactory security or the failure of the purchaser to execute any of his obligations under this or any other existing contract will entitle the seller upon notice to the purchaser, to suspend shipments or cancel the contract, or so much of it as may remain unexecuted, without prejudice to any claim for damages the seller may be entitled to make.

- Terms                    10. Unless otherwise stated in quotation, seller's terms are understood to be net cash in exchange for relative documents mentioned herein to be tendered to bankers approved by the seller with whom irrevocable credit is to be established when order is entered and before goods are manufactured.
11. Every quotation is based on the understanding that, if accepted and the seller should elect, formal contract satisfactory to the seller will be signed by the purchaser.

6. *The indent.*—Suppose, now, that the sample and prices have been found satisfactory and an order has been placed. The manufacturer has secured the order either directly thru the foreign buyer, or else thru a middleman, generally a commission house. In the second case, the indent, or foreign order, may be either an open indent or a closed indent. A closed indent specifies the firms from which the goods are to be purchased, while the open indent leaves, to the discretion of the merchant or the commission house, the choice of the source of supplies.

A typical indent states the quantity and nature of the goods, the price (if it is known to the buyer), the firm from which the goods are to be obtained (if it is

a closed indent), the marks to be used on the packages and documents, the date of shipment or of arrival, if the order is urgent, and often the method of payment. The indent is numbered by the foreign buyer, and the number is usually included in the mark placed on the packages and documents.

For example, if the indent is received by an export commission house, it usually takes the following course thru the various departments. After it has passed thru the mail-clerk's office in the commission house, it goes first to the credit man, who takes notice of the methods of payment and passes judgment in regard to the credit. If the order is satisfactory, it is passed on to the buyer, whose duty it is to obtain the prices and then purchase the goods from the manufacturer. The amount of freedom he will have in purchasing will depend on the nature of the indent. From the buyer the order passes to the bookkeeping department; at this stage it is recorded on an index card. A copy goes to the shipping clerk, this copy enables him to follow up the shipment and attend to the receipt of goods at the seaboard, the arrangements for freight space and the making out of the ocean bill of lading. Finally, a copy is sent to the invoice clerk in order that he may make out the invoice, draw the draft and take out the insurance papers. From him the order passes to the correspondent, whose duty it is to write the letters which must accompany the various documents that go with the shipment.

7. *Standardizing the order.*—As a rule, all indents,

whether they are received by a commission house, a merchant or a manufacturer, must be put into a form which will make them suitable for the purposes of the business. If the order is in a foreign language that is not familiar to the majority of the clerical force, it has to be translated. If it is contained in a letter, it has to be put into the proper form, before it can be started on its route thru the various departments. In most cases, therefore, a special form is used for the original order. Several copies are made out, each copy on paper of a distinctive color.

The first step, after the receipt of an order, is the acknowledging of it. The second step is to inform the various departments carefully about all details concerning the nature of the shipment—for example, order number, marks to be placed on cases, the destination and the kind of packing required. If one order requires the sending of several packages, each package is marked with the order number and, in addition, is given a serial letter that shows its relation to the rest of the shipment.

The acceptance of the order should be acknowledged on a special blank and should include all the details of the order as given by the customer. It should also include clear statements in regard to shipping routes, manner of packing, amount and kind of marine insurance, consular declarations and similar details. If such statements are made, there is little probability that the buyer will be disappointed in any way.

**8. Packing for export.**—Special attention should be given to the packing of export goods. If specific instructions are given, they should be scrupulously followed. Even if the American or Canadian shipper may not understand the reason for certain instructions, and may be convinced that his idea of packing is better than that suggested by the foreign customer, he should nevertheless comply with the consignee's request. In all cases, the peculiar conditions of the country to which the order is sent should be kept in mind. When, for instance, the goods have to be carried overland on pack animals, the size of the cases should be adapted to the carrying capacity of the pack animal which is used in the country of destination. For example, a package that has to be carried by a native carrier should not weigh more than 90 pounds. The load for a donkey should not exceed 100 pounds. For a mule, the load is from 100 to 150 pounds; and for a camel, from 400 to 500 pounds. It should also be remembered that such packages should generally be divided into equal halves, so that half may be loaded on one side of the animal, and half on the other.

Climatic conditions should be given due consideration. Seeds that have to cross the tropical zone must be protected against the heat and humidity that prevail in these regions. Also, careful attention should be given to the question of economy in the size of the packages, in order that the entire order may not occupy more space in the steamer than is absolutely

necessary. In this connection it is important to remember that the steamship company charges according either to weight or to measurement, choosing that standard according to which they can make the highest freight charge.

The state of civilization obtaining in the country of destination, and the particular susceptibilities of the inhabitants must also be considered. Careful regard for these factors will often determine the color of the packing when goods are sent to a more or less uncivilized country, for certain color prejudices exist among primitive peoples which can seriously affect the salability of goods. In China, green and black are considered unlucky; therefore these colors should not be used on packages sent to that country. There is a story of a German who captured the Chinese soap market by selling his soap in a yellow-dragon wrapper.

The choice of the kind and color of the package depends also upon whether the goods are consigned to a wholesale merchant, a retailer or an individual consumer. It should always be kept in mind, however, that attractive packing, careful boxing and artistic labeling will considerably increase the natural selling power of any merchandise; in some cases, any one of these factors, or all of them combined, may influence a prospective customer to buy. Some of the European countries lay special stress upon good packing, and the reports of the consular officers of many commercial countries reveal again and again the effect that good packing has upon salability. Invariably, at-

tractive packages have an important advertising value.

9. *Weights and measurements.*—Another subject which calls for special attention on the part of the exporting manufacturer or merchant, is that which has to do with the exact statement of the weights and measurements of the exported goods. It should be kept in mind that in all countries, except in the Orient and Great Britain and her colonies, weights are expressed by means of the metric system. Of late, a special effort has been made to introduce this system more generally into this country. A report was recently prepared by the director of The Bureau of Standards in Washington, D. C., for the use of the International High Commission on the Uniformity of Laws. It might be a surprise to find how many large American exporters are already using the metric system, in some cases for both domestic and foreign trade. Now that the metric system has been adopted in Europe, Latin America and China, this country will find itself more and more at a disadvantage with respect to the units of weight and measure unless it also makes use of the same system.

10. *Marking the goods.*—The question of how goods should be marked must be carefully taken into account if infraction of the "merchandise marks" laws is to be avoided. Some countries are extremely strict in this matter. In Australia, the Commonwealth Commerce Act provides that a trade description must be branded on certain goods or affixed by a label; this "description" indicates the country in which the

goods were manufactured, and the materials of which they were made. In Australia, the most detailed regulations are issued, with reference to almost all classes of goods. In Sweden, it is not allowable to print on the goods any Swedish name unless there is also a clear statement of the country in which the goods originated. Any infringement of this rule, which is for the protection of the manufacturer, results in the immediate confiscation of the entire shipment. These examples clearly show the importance of the manufacturer's being thoroly acquainted with the marking regulations of various countries with which he deals.

In addition to knowing the regulations with respect to the marking required by the governments of the importing countries, the exporter should be very careful to inform himself in regard to all marking demanded by the foreign customer. Generally each package should bear the order number and the initials of the exporting firm within a diamond or triangle. In no case should the port mark, the mark that indicates the port to which the shipment is consigned, be omitted.

11. *Invoicing*.—Finally the matter of invoicing must be thoroly understood. According to the kind of trading method employed and the nature of the price quoted, one of the following forms of invoices is used:

Loco Invoice, showing cost of goods at place of purchase.

F. O. B. Invoice; showing values free on board steamship.

C. & F. Invoice; showing cost of freight.

C. I. F. Invoice; showing cost of freight and insurance.

Franco-domicile Invoice; showing cost of freight when delivered at the purchaser's warehouse, and including all charges to the port of destination, as well as import duties and transport charges from the port of discharge to the place of final destination, if that place is in the interior.

The Franco-domicile invoice is similar to, sometimes identical with, the "F. O. B. destination" invoice. The Loco invoice is sometimes called an "F. O. B. factory" invoice.

The export invoice differs in several respects from the domestic invoice. For example, the former includes code words, spaces for numbers, weight measurements, the foreign-money value of the total shipment and the signature of the shipper. For this reason, it is advisable to use for export invoices, forms that are different from those used in domestic trade. Additional details are required in the case of invoices used for special markets. Thus, for shipments to Australia, New Zealand or South Africa, the invoice should show the charges for the following items; boxing, crating, cartage from factory to railroad station, and the freight transportation from local station to the port of shipment. The laws of these countries require that these detailed statements be made, no

matter how the manufacturer quotes his prices. The placing of the signature at the bottom of the export invoice is always desirable, often absolutely necessary.

12. *Sundry documents.*—Besides the invoice, various documents have to be made out. There are the statement of charges, the memorandum of measurement and weight, and the paper that bears the shipping and financial advice. There are always some charges which have to be billed to foreign customers, and which are not included in the quoted price. These are enumerated in a special statement; it is better to make this statement on a special form rather than to write it on the face of the invoice itself. Such charges might include petties—for example, the cost of postage and cablegrams, and charges for freight and extra packing—provided these are not included in the price quoted. The packing list—sometimes called the measurement notes—is of special interest in connection with the steamship service, and is especially valuable to importers when a shipment is made up of a large number of packages. Sometimes it is necessary to supply certificates of inspection, analysis, weight and count. These are most often used with shipments of oil, grain, lumber and similar commodities. Certificates of this kind and the statement of charges are usually demanded by the banker who mediates the payment for the shipment, which is generally made by draft. When payment is made in this way, the shipper uses a special form to advise the for-

eign customer that a draft has been drawn. This is known as the shipping and financial advice.

#### REVIEW

What policies are to be recommended in regard to sending samples?

Why does the price policy in exports differ from that in domestic trade?

Explain the difference between C. I. F. and F. O. B. shipments.

Describe the indent or foreign order.

What considerations should be followed in packing goods for foreign shipment?

How does the diversity of weights and measures operate to the disadvantage of the American exporter?

What is the nature of the rules of foreign countries in regard to marking goods?

Describe the invoice used in foreign trade.

## CHAPTER IX

### THE TECHNIC OF EXPORT TRADE (*Continued*)

1. *Inland transportation.*—If the exporting manufacturer is located in an inland city the consignment has to be moved to the seaboard, in most cases by rail. The part that each of the various agents plays in connection with the inland transportation of shipments in foreign trade, was discussed in the preceding chapter. In the present chapter, therefore, the question of agency is disregarded, and only the method of handling the shipment is considered. When a shipment from the interior is made either a thru bill of lading or a local railroad bill of lading is used. In the former case the local representative of the railroad company, its foreign freight agent, engages freight space and attends to all the details of the arrangement for ocean transportation. The local railroad bill of lading merely covers the transportation from the manufacturer's plant to the seaport. If the goods are shipped on this kind of bill of lading, the person whose duty it is to attend to the shipment at the seaboard is notified in regard to the time the shipment is due at the coast, and is expected to attend to sending it on without unreasonable delay.

Bills of lading for goods shipped to foreign parts

should be marked "For export," in case of carload shipment to New York, they should bear the directions "For export, lighterage free." This specification insures for the shipment the special attention that railroads try to give export shipments, which includes free storage for fifteen days instead of for forty-eight hours. Their purpose in making these special allowances is to provide for delays in connections—such as the delay that occurs when goods fail to arrive in time for shipment on the right steamer.

The carting from the railroad station to the ship's pier will often be arranged for by the railroad company itself. In many cases, however, it will be more economical for the buyer to employ the services of a foreign-freight forwarder or of a carting company that handles goods for foreign shipment. It should not be forgotten that if a thru bill of lading is not used, the seaboard agent who is to take care of the shipment must be supplied with a copy of the railroad bill of lading, officially signed. A duplicate of the bill of lading is sometimes used as the shipping order. In such an event, the railroad keeps one copy for billing purposes, and the shipper keeps another in his files as a memorandum.

A new law concerning the railway bill of lading went into effect January 1, 1917. Under the pressure of the demand for a stricter regulation of the rules governing the use of bills of lading, from banking houses, chambers of commerce, legal and industrial associations, farmers' councils and other organi-

zations, Congress passed the Bill of Lading Act, known as the Pomerene Bill. This act renders the bill of lading more easily negotiable by transferring the liability for a fraudulent bill from the bank to the railroad.

2. "*Straight*" and "*order*" bills of lading.—The Bill of Lading Law discriminates between the "straight" bills of lading, which have to do with a shipment consigned to a specific person, and the "order" bill of lading, which is used with a shipment consigned to the order of a named person. Of these two types only the order bill is negotiable, and this is negotiable only if its negotiability is not nullified by a special clause.

Only one of the conditions that appear on the back of the bill of lading needs special attention. This states that a claim relating to a lost shipment will be considered only if made in writing by either the shipper or the consignee, and within four months after a reasonable time has been allowed for the value of the shipment to be estimated. If a claim is not filed within the specified time, the carrier cannot be held liable. A shipper, however, in order to protect himself against loss, includes in his tracer a clause that automatically turns the tracer into a claim if the shipment is not received within a certain period.

3. "*Thru*" bills of lading.—"Thru" railway bills of lading can be obtained to practically all European ports, and to some other ports of the world. In some cases, thru billing can be obtained from the American

railroads to inland points in foreign countries. Generally speaking, billing thru to inland points is not the most economical arrangement that can be made. As a matter of fact, few large importers at inland points in foreign countries are anxious to have shipments consigned to their domicile on thru bills of lading. They usually prefer shipments C. I. F. foreign seaport, since they can make more profitable arrangements for the shipment of the goods from the foreign seaport inland than is offered by the American railroad that quotes the thru-bill rate.

4. *Bills of lading in Canada.*—The Canadian regulations in regard to bills of lading are to be found in the Bill of Lading Act, Revised Statutes of Canada (1906), Chapter 118; the Water-Carriage of Goods Act (1910); and the conditions in regard to uniform bills of lading approved by the Board of Railroad Commissioners, Order No. 7562 (1909).

The same distinction is made between "straight" and "order" bills of lading, and only the latter are negotiable. There is also the same provision for dealing with claims, relating to lost shipments. But the Pomerene Bill goes much further in transferring the liability for a fraudulent bill from the bank to the common carrier. At the last annual meeting of the Canadian Bankers' Association, it was decided to bring before the Minister of Trade and Commerce a proposal to enact legislation in Canada on exactly the same lines.

5. *The "London Clause" Charge.*—What seems to

be a discrimination against Canadian seaports is the "London Clause" which forms part of all outgoing bills of lading issued by the North Atlantic shipping companies. It is an extra charge on all goods carried to the Port of London. The Port of London authority, contrary to the general impression, receives no part of this charge. It would seem that this clause should be eliminated if Canadian trade is not to be restricted, especially as United States shippers had this same clause taken out of United States bills of lading in 1902.

6. *Ocean rates.*—Ocean freight rates and chartering will be treated in special chapters in the latter part of this Text, reference is here made only to a few technical details concerning the rates for foreign shipments. The shipper should realize that there are two kinds of ocean freight rates; they are either net or subject to a charge of five or ten per cent, which is known as "primage." This charge originally represented a gift made to the captain or the crew of a vessel for the careful loading and handling of a specific shipment. Later on, the same amount was given to shipping agents, also as a reward for taking special care of a shipment. And today it simply forms a part of one of the standard rates. Thus a rate of 50 shillings plus ten per cent is exactly the same as a rate of 55 shillings. But the practice of quoting primage is gradually waning, and it is probable that before long all rates will be quoted flat.

7. *Routine of making the shipment.*—Even if the

services of an agency of forwarders, commission houses or merchants are employed, the manufacturer or his export manager should be thoroly familiar with the routine followed in making the shipment, and acquainted with various formalities of the process, in order that he may check the work of those who represent him. The following brief description may prove of some value to the reader.

First of all, it is necessary for the shipper to engage freight room. If he does this after he has made inquiry concerning rates for a specific shipment, it is considered that he has accepted the rate quotation made by the carrier. Nevertheless, the steamship company should be definitely informed on the shipper's acceptance of terms, in order that definite provision may be made for taking the goods on board. Every effort should be made to have the shipment ready at the stated time, since otherwise the shipper will be charged for "dead space" without getting any value in return for the payment that he has made. Furthermore, delay means that the goods have to await the next steamer. Under such circumstances they may be held up for several weeks and the buyer may suffer great inconvenience, if not actual loss.

8. *Documents.*—Various documents are used by the steamship companies in connection with the receipt of goods for shipment. The first one is a shipping permit (see page 180), by which the receiving clerk at the steamship dock is authorized to receive from a given firm a specified amount of merchandise,

All risk of loss or damage while goods are on the wharf  
however occurring, to be borne by shipper. Sub-  
ject also to all the conditions and exceptions ex-  
pressed in the White Star Line form of Bill of  
Lading.

Attention of shippers is called to  
Section 235 of the Criminal Code of  
the United States with regard to the  
shipment of explosives or other dan-  
gerous articles.

To THE RECEIVING CLERK.

S.S. .... **WHITE STAR WHARF**  
PIER                    NORTH RIVER

*Receive from* .....

*To be delivered* .....

It is understood that this engagement is on the condition that delivery  
shall be made promptly at the time called for in this permit or space will  
not be reserved, and the steamer and its agents shall be absolved from  
any and all liability arising out of the issuance of or under this permit,  
including any liability that may arise on account of the steamer's pro-  
ceeding to sea without the goods.

**WHITE STAR LINE**  
New York, ..... 19                    PER.....

to be delivered at a certain time. A shipper will experience difficulty in getting his shipment on board the steamer without a shipping permit. The next document is the dock receipt (see opposite page) which merely signifies that a certain consignment has been received by the receiving clerk. This receipt is exchanged for the company's bill of lading before the departure of the steamer by which the goods are sent; the exchange takes place at the steamship company's office.

The next documents to be considered are used in connection with the clearing of the goods thru the custom house. The steamship company is not permitted to issue the bills of lading until these papers are filled out satisfactorily. The United States government, as well as almost all other governments,



## FOREIGN TRADE

requires for statistical uses a shipper's export declaration (see below), which states the name of the ship by which the goods are to be sent, the destination, the number of packages, the marks that are used on the packages, the kinds of goods and their value. The statement of these particulars is made under oath. No oath is required in connection with declarations for export by vessel if the total value of the shipment does not exceed \$100. It is specifically provided that these declarations may be made by an authorized agent of the shipper. In the case of shipments from interior points for export on thru bills of lading, the declaration may be transmitted to the seaboard with the shipping papers.

## PREPARATION OF EXPORT DECLARATION (Read Carefully).

**1. THE SHIPPER MUST PREPARE THIS EXPORT DECLARATION** and subscribe to the oath before a customs officer, notary, or other authorized officer. The declaration must be signed by the shipper, but the oath may be omitted on any shipment for exportation by vessel if the total value of the items does not exceed \$100 and on shipments regardless of value to Canada or Mexico by car, vehicle, or ferry. If the declaration is executed by an agent for the shipper the authority must be in writing on this declaration or other document filed with the Collector. The values and names of shippers may be omitted from the duplicate, but must always appear on the original. The original is for use of customs officers and will be treated as confidential and information not disclosed without written authority of the shipper or his agent. Export statistics are compiled from these declarations and all data required on the prescribed form must be furnished.

**2. DOMESTIC ARTICLES EXPORTED.**—The value of all articles grown, produced, or manufactured in whole or part in the United States must be stated in the column of "U. S. Products."

**3. FOREIGN ARTICLES EXPORTED.**—The value of articles of foreign origin shipped out of the United States in the same condition as imported must be stated in the column of "Foreign Products." If foreign articles are subjected to any process of manufacture or alteration in the United States they become United States products and must be reported as such. Thus: Imported raw sugar refined in the United States should be reported as a domestic product.

**4. THE VALUE OF ARTICLES** to be stated is the selling or invoice price or the actual cost or true market value at the time and place of shipment for exportation.

**5. DESCRIPTION OF ARTICLES EXPORTED** must be accurate and complete. General terms such as dry goods, groceries, meat, machinery, millinery, etc., will not be accepted. In the case of cheese the declaration must state whether filled or unfilled, cheeseburgers whether colored or uncolored, butter whether pure, unclarified, or renatured.

**6. THE KIND OF PACKAGES** as boxes, barrels, etc., and the net weight exclusive of outer coverings, must be specified.

**7. THE TOTAL QUANTITY** of each article expressed in the usual measure of pounds, yards, gallons, etc., must be stated. Domestic spirits exported must be stated in gallons of 56 per cent alcoholic strength.

**8. THE COUNTRY OF FINAL DESTINATION OF GOODS**—that is, the country to which goods are sold—must be shown. Special care should be exercised to state the final destination of goods shipped through Canada to Europe, and of goods to be transhipped in the United Kingdom, the Netherlands, Germany and France en route to other countries.

**9. INSPECTION CERTIFICATE.**—Process butter or butter adulterated or renovated must be accompanied by certificate of purity issued by the United States Inspector of dairy products. Certificates of inspection must be presented to the Collector for meat and meat food products exported when required by the regulations of the Department of Agriculture.

**10. EXPORT SCHEDULE** may be obtained free of charge from the Bureau of Foreign and Domestic Commerce, Department of Commerce, Washington, D. C., and will be of much assistance to exporters.

**11. SALE AND PRINTING OF BLANKS.**—Shipper's export declarations may be obtained from Collectors of Customs at their price of two for one cent or \$5.00 per thousand. The export declarations may be printed by private parties providing they conform strictly to the official form, in width, wording, color, and arrangement.

**SHIPPING INSTRUCTIONS (Read Carefully).**

**1. SHIPMENTS FROM INTERIOR POINTS FOR EXPORTATION.**—If shipped on a through bill of lading, the shipper must prepare the original export declaration and attached carrier's extract and deliver both forms to the carrier to accompany the shipping papers to the port of exportation. If shipped on a local bill of lading, the declaration and extract may be attached thereto or mailed separately to the consignee at the seaport.

(a) If the shipper prefers, he may place the original declaration, but not the carrier's extract, in a sealed envelope addressed to the Collector of Customs with his name indorsed thereon and the fact of sealing noted on the declaration and deliver it with the extract to the carrier. If goods are consigned to an agent at the seaport for transhipment and exportation the shipper may mail the declaration and extract properly prepared direct to the agent.

(b) Upon arrival of the goods at the port of exportation, the carrier must immediately deliver the original declarations, sealed and unsealed, and the carrier's extracts to the Collector of Customs who will retain the original and certify the extract and return it to the carrier, vessel, or party named to attend to exportation.

**2. EXPORTING VESSEL OR CARRIER.**—Care should be exercised in receiving goods destined for foreign countries or non-contiguous territories not accompanied by certified extracts or original declarations, as clearance will not be granted until the export declarations have been filed with the Collector or bond given to produce the same. The certified extracts must be attached to the vessel's manifest or car manifest or copy of waybill when presented for clearance.

**3. EXPORTATIONS FROM SEABOARD OR BORDER PORTS.**—The shipper at the seaport or border may deliver or mail the original declaration and extract to the Collector, who will retain the original and certify the extract and deliver it to the shipper, vessel, or party named to attend to exportation.

**4. SHIPPERS' DECLARATIONS AND EXTRACTS ARE NOT REQUIRED** or withdrawn from bonded warehouses for exportation or for shipments under customs bond for exportation or for transportation and exportation.

**5. SHIPMENTS FROM ALASKA, HAWAII, OR PORTO RICO TO THE UNITED STATES FOR TRANSHIPMENT AND EXPORTATION** should be treated in the same manner as shipments from interior points and the declaration and attached extract must accompany the coastwise manifest for delivery to the Collector at the port of transhipment and exportation.

**6. BEFORE A CLEARANCE SHALL BE GRANTED FOR ANY VESSEL** bound to a foreign port, the owner; shipper, or consignee of the cargo of such vessel shall deliver to the Collector manifest(s) or declaration(s) of the cargo or parts thereof shipped by them respectively, and shall verify the same by oath. Such manifest (or declarations) shall specify the kinds, quantities, and values of the articles and the foreign port or country of destination. (See sec. 6200, Rev. Stat., U. S.)

If any vessel bound to a foreign port departs on her voyage without delivering manifest and obtaining clearance, the master or other person in charge shall be liable to a penalty of \$500 for every such offense. (See sec. 6197, Rev. Stat., U. S.) Similar provisions apply to exportations by rail, vehicle, or ferry. (See sec. 1, act March 3, 1893.)

**7. TO THE COLLECTOR:** I hereby authorize.....

Address ..... to act as my agent for customs purposes in the exportation of the within-described goods. Please deliver the certified duplicate accordingly.

.....  
Shipper.

The exact details of the requirements in regard to the statements to be made before the custom-house officials, are given in a government publication called "Shippers' Export Declaration and Export Procedure," which is one of the Treasury "decisions." This decision contains special provisions for goods shipped under any form of customs bond for exportation from, or in transit thru, the United States. Since the statistical data regarding such shipments can be obtained from the customs papers, no declaration is required for goods so shipped.

Many American manufacturers fail to realize that

certain advantages can be secured by making shipments of this kind in bond. This is true of products that are subject to inter-revenue taxes, as well as of products that are partly or wholly manufactured from imported materials upon which duty has been paid. In order to increase the salability of such goods, the United States<sup>1</sup> grants to products, which are exported in bond, exemption from internal revenue taxes, and allows a so-called "drawback" of 99 per cent of the duty paid on these manufactures, which consist partly or wholly of imported crude or semi-crude material. Beer, liquors and tobacco are typical products of this kind. It is true that the manufacturer has to comply with a number of technicalities in order to secure the benefit of these allowances, but the drawback, or the tax exemption means either a direct addition to the profit of the manufacturer, or else a greater profit thru increased sales due to a price reduction brought about by means of these facilities.

9. *Steamship bill of lading*.—Having fulfilled all the requirements of the customs authorities, the exporter can obtain the steamship bill of lading in exchange for his dock receipt (see inserted illustrations). This bill of lading is a valuable document, because it conveys title to the goods. The Pomerene Act applies to ocean bills of lading with the same force as it does to railroad bills of lading. The bill

<sup>1</sup> There is a similar provision in the Canadian Customs Act (see "The Customs Tariff, 1907, Sect. 10, and Schedule B.—also later amendments). In most cases the drawback allowed is 99 per cent of the duty paid, but in some cases only 50 per cent, and in one case 65 per cent.

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of lading is drawn up on a special form supplied by the steamship company, and usually from three to eight copies are prepared, some of which are negotiable. The negotiable copies are placed in the hands of the banker, who finances the shipment or attends to collecting payment. The banker must have a "full set"—that is, all the negotiable copies that have been issued. If there should be any other negotiable copies those in the possession of the banker would become worthless, since the title to the goods may be transferred by means of a single negotiable copy. Each of the negotiable copies, therefore, contains a statement as to how many bills of lading of the same kind and of the same date of issue have been prepared.

The non-negotiable copies serve various purposes. For example, they are used for the records of the shipper and the steamship company, for the customer's information, and for fulfilling the requirements of foreign consulates.

The bill of lading is generally made out directly in the name of a foreign consignee under the following circumstances: when the consignee has actually paid cash, or has otherwise arranged for security or guarantee before shipment of the goods; or when the shipment is made on open account.

The consignee himself negotiates the order bill of lading by his own indorsement if the bill is drawn directly to his order. If, however, it is made out to the shipper, the latter's indorsement is necessary of

course, before the bill can be passed to any other person. The indorsement can be made either to the order of a particular person or bank, or it can be made in blank. Altho one negotiable copy, properly indorsed, is sufficient to convey title to the goods, the entire set should be indorsed.

There is no uniform style for ocean bills of lading. They vary according to the carrier that issues them, and according to the conditions and customs prevailing at the port of destination. Each steamship company specifies its own terms, which, however, are always made subject to change, owing to the sharp competition between the various lines.

10. "*Foul*" and "*clean*" bills of lading.—The difference between the "foul" and the "clean" bill of lading will bear explanation. The former is issued when part of the shipment is found to be damaged in any way. It is decidedly to the shipper's interest to pack his goods in such a way that the issue of a foul bill of lading will be rendered impossible, for any reference to bad packing or damaged goods places a stain upon the document in the eyes of many foreign bankers, and may result in serious difficulties.

In order to obtain a "clean" bill of lading, an exporter sometimes gives a "letter of indemnity." The letter is attached to that copy of the bill of lading which is kept by the shipping company for future reference, and is sent back to the exporter if any claims are made against the steamship company because of imperfections in the shipment.

11. *Consular invoices.*—Finally, the governments of foreign countries require another group of documents—the consular invoices and the certificates of origin. Practically all South American Republics demand that these papers accompany all imports of foreign goods.

The Federal Trade Commission, realizing the importance of tariff laws and regulations in the development of American export trade, made a thoro investigation of tariffs and other trade regulations imposed by the governments of Brazil, Uruguay, Argentina, Chile, Bolivia and Peru. Their report, which was published in June, 1916, contains a wealth of reliable and detailed information. Many facsimiles are used to show various forms that are used for recording customs imports—for example, consular declarations, transfer documents and certificates of origin. No manufacturer who wishes to take part in a large way in the export trade with these countries, should fail to take advantage of the information thus made available.

The following are some of the documents that foreign consuls in America are authorized to give: the consular invoice proper, consular attestation of usual invoice or certification of invoice bill of lading, certificate of origin, and non-dumping certificate. A consular invoice generally includes the same details as an ordinary commercial invoice made out in the language of the country of destination. The number of copies required varies from two to eight. This

invoice contains a full description of the merchandise represented in the shipment. For example, the Brazilian consular invoice requires the following essential details:

1. Name and nationality of carrying vessel.
2. Port of shipment of merchandise.
3. Port of destination of merchandise.
4. Port of destination of merchandise, with option for . . . . . or in transit for . . . . .
5. Total value of invoice, including approximate freight charges.
6. Approximate freight and shipping charges.
7. Rate of exchange, premium or agio of currency of country whence goods are exported.
8. Marks and numbers of packages.
9. Quantity or number of packages.
10. Class of packages.
11. Specification of merchandise in accordance with Article XIII, Chapter IV, law No. 1,103 of November 21, 1903, which provides that "goods may be described either in accordance with the official nomenclature accompanying these regulations . . . or in accordance with commercial usage, but with separate specifications of each article according to its material."
12. Gross weight of the package in kilograms.
13. Gross weight of the merchandise. Par. 2, art. 20, "Preliminary Dispositions of the Tariff."
14. Other units of the tariff on which duties are based.
15. Declared value of each item or article described, inclusive of freight and charges.
16. Country of origin of each article.

As an illustration we give a Brazilian Consular Invoice as filled out in practice (from Report of Federal Trade Commission).



FACTURA.

## **FOREIGN TRADE**

**PLATE II.**

Número de orden	Número de orden de compra	Nombre y apellidos del proveedor	Teléfono y dirección del proveedor	Cantidad que se quiere adquirir	Unidad de medida	Precio de adquisición de la mercadería en pesos mexicanos	Peso en kilogramos de la mercadería en kilogramos	Unidad de medida de peso	Precio de venta al mayor en pesos mexicanos	Porcentaje de ganancia que se quiere obtener	Número de orden de venta	Nombre y apellidos del comprador	Teléfono y dirección del comprador	Cantidad que se quiere vender	Unidad de medida	Precio de venta al menor en pesos mexicanos	Porcentaje de ganancia que se quiere obtener	Número de orden de venta	
A.C.G. 20- de Agosto	10010	Graña Casa Guaracatán Michoacán	Av. 1 Casa Guaracatán Michoacán	1	Kilogramo	220.6	197	Kilogramo	213	10%	213	10%	Guaracatán	Av. 1 Casa Guaracatán Michoacán	1	196.3	6	196.3	6
	10011	Graña	Yoloxóchitlaca	1	Kilogramo	222.3	198	Kilogramo	214	10%	214	10%							
	10012	Graña	Cajitlán	1	Kilogramo	221.1	197	Kilogramo	214	10%	214	10%							
	10013	Graña	Cajitlán	1	Kilogramo	220.7	197	Kilogramo	214	10%	214	10%							
	10014	Graña	El Pájaro	1	Kilogramo	220.6	197	Kilogramo	214	10%	214	10%							
	10015	Graña	Brión	1	Kilogramo	220.7	197	Kilogramo	214	10%	214	10%							
	10016	Graña	Lázaro Cárdenas	1	Kilogramo	220.2	196	Kilogramo	213	10%	213	10%							
	10017	Graña	Guaracatán Michoacán	1	Kilogramo	220.7	197	Kilogramo	214	10%	214	10%							
	10018	Graña	Brión	1	Kilogramo	220.7	197	Kilogramo	214	10%	214	10%							

BRAZILIAN CONSULAR INVOICE AS FILLED OUT IN PRACTICE. (REVERSE.)

**12. Certificates of origin.**—Those governments whose tariff laws show discrimination in favor of goods sent from certain countries, require certificates of origin. The import duty on goods from the favored countries is comparatively small. In order, then, that discount may not be allowed on merchandise that is not entitled to it, a certificate of origin is required. In some cases the ordinary consular invoice covers all statements required for this purpose; under such circumstances, of course, it is unnecessary to issue a special certificate of origin.

**13. Other certificates; special regulations.**—A certificate of origin is sometimes temporarily required, in accordance with quarantine and "phylllopera" regulations, when any country or district is afflicted with a plague or an epidemic. The purpose of the requirement is to enable the authorities at the port of destination to tell by means of the certificate whether or not the goods come from a locality that is affected.

Besides certificates of origin, certificates showing that the value declared in the invoice is accurate are required also at times.

In certain British possessions, the desire to guard against the "dumping" of foreign goods (resulting in underbidding) has led to the use of so-called "non-dumping" certificates. These are required in Australia, New Zealand, South Africa and Canada. A certificate of this kind reads somewhat as follows:

I declare that the values which appear on the body of this invoice represent at the date of the invoice what would be

the open market value of these goods if they were sold for home consumption in the United States, and that the discounts shown are the same as those granted on similar quantities sold for consumption in the United States.

Canadian inspectors frequently visit American manufacturers who export to Canada, examine their books and compare the values given in the export declarations with the recorded prices that these exporters charge American buyers.

Special regulations concerning the importation of food, drugs, arms and ammunition often exist, and full particulars in regard to such regulations should be obtained by manufacturers who export to countries where they are in force. Special regulations also govern the international sugar trade as a result of the Brussels Sugar Convention.

#### REVIEW

State the advantages and disadvantages of export shipments from inland points on thru bills of lading, and of local bill of lading to port of departure.

If the importer lives in an interior city is it best to ship on a thru bill of lading, to destination or to the most convenient port?

Describe the documents incident to shipping, the shipping permit, dock receipt and shipper's export declaration.

What is a shipment in bond, and what are its advantages?

Describe the steamship bill of lading.

What do consular invoices usually contain, how are they issued and what purpose do they serve?

**PART II**  
**SHIPPING**



## PART II

# SHIPPING

### CHAPTER I

#### ELEMENTS OF OCEAN TRANSPORTATION

1. *Freedom of the seas an international law.*—The ocean is a highway free to all. Its vast extent allows everybody to use as much of it for transportation service as he wants without infringing upon the rights of any other person. This is the natural law underlying the freedom of the seas—the condition under which maritime navigation, in time of peace and in time of war, is unhindered for all the nations of the world.

The laws of nations, civil as well as international, have built many a wall in defense of this principle. Increasing safety upon the sea, granted to strong and weak alike, has been one of the proud records of advancing civilization. To be sure, coastwise shipping in many countries is still reserved to the ships of that country, as in the United States. But in general, the principle of equal treatment to all has been brought to a wider application in ocean navigation than in any other field of human activities.

There was a time when the Spanish, then the Dutch, then the English were supreme upon the seas. Those days are gone, never to return again. The doctrine that one nation can cede a portion of the seas to another, upheld as recently as the eighteenth century by so eminent a man as Montesquieu, has become utterly irreconcilable with the views of our jurists.

Thus the phrase, the freedom of the seas, has almost the force of an axiom in time of peace. Great steps have been taken toward extending the guarantees of unmolested international trade, even into the times of war. The Declaration of London of 1909, reflecting as it does the opinion of the most enlightened men of all nations in the fields of jurisprudence and diplomacy, was a milestone in the development of the freedom of the sea in time of war. The fact that this declaration of twentieth century sea-rights, was never ratified detracts nothing from its value as an encouraging omen. It marks a tendency in the evolution of modern practice to regard the peaceful rights of neutral nations as superior to the claims of a belligerent to treat commerce upon the seas as it chooses.

2. *British statement at the Hague conference.*—This tendency is more clearly revealed in the charge of Sir Edward Grey to the British delegates before the Second Conference of The Hague, than in any other existing documents. This reads in part:

His Majesty's Government recognize to the full the desirability of freeing neutral commerce to the utmost extent

possible from interference by belligerent powers, and they are ready and willing, for their part, in lieu of endeavoring to frame new and more satisfactory rules for the prevention of contraband trade in the future, to advance in the principle of contraband of war altogether, thus allowing the over-sea trade in neutral vessels between belligerents on the one hand and neutrals on the other to continue during war without any restrictions, subject only to exclusion by blockade from an enemy's port. They are convinced that not only the interest of Great Britain, but the common interest of all nations will be found, on an unbiased examination of the subject, to be served by the adoption of the course suggested.

In the event of the proposal not being favorably received, an endeavor should be made to frame a list of the articles that are to be regarded as contraband. Your efforts should then be directed to restricting that definition within the narrowest possible limits and upon lines which have the point of practical extinction as their ultimate aim.

If a definite list of contrabands cannot be secured, you should support and, if necessary, propose regulations intended to insure that nations shall publish, during peace, the list of articles they will regard as contraband during war, and that no change shall be made in the list at the outbreak of or during hostilities.

A list might be prepared and submitted for adoption by the conference, specifying the articles which in no event shall fall within the enumeration of contraband; that is, mails, foodstuffs destined for places other than beleaguered fortresses and any raw materials required for the purposes of peaceful industry. It is essential to the interest of Great Britain that every effective measure necessary to protect the importation of food supplies and raw materials for peaceful industries should be accompanied by all the sanctions which the law of nations can supply.

His Majesty would further be glad to see the right of search limited in every practicable way, e.g., by the adoption of a system of consular certificates declaring the absence of

contraband from the cargo and by the exemption of passenger and mail steamers upon defined routes, etc.

**3. Interest of the United States.**—All thru the diplomatic history of the nineteenth century, the United States has stood for the principle of the immunity of private property at sea in wartime. The interference which the European war caused with our exports not only to Germany, but to the neutral countries of Europe, has given us grave cause to be anxious lest over-sea nations attempt to restrict their dependence upon necessary supplies from the United States. Such a tendency would be a backward step in the progress of civilization and would be a severe blow to that expansion of our export trade for which we most earnestly strive.

**4. Freedom of the seas and economic law.**—The freedom of the seas is not only a political issue and a principle of international law, but it is also an economic concept, fundamental to the understanding of ocean shipping. The same abundance which renders it impracticable for one nation to appropriate all or even parts of the sea to its exclusive possession, also guarantees a greater freedom to the individual seafarer than prevails in any other field of business. In contrast to land transportation, water transportation is surprisingly free.

This is strikingly illustrated by an article, "Agreements and Conferences in Their Relation to Ocean Rates," written by Mr. William Boyd, President of Houlder, Weir and Boyd, Incorporated. He points

out the principal difference existing between rail and water transportation:

Railroads obtain their franchise from the state, which permits them to lay their tracks along the lines of existing or potential trade centers, and to acquire rights of way by the exercise of eminent domain. Without these privileges, a railroad cannot be built. A road which is built in the exercise of such a franchise becomes in duty bound to maintain a regular, continuous service, as efficient as the needs of the trade along the line require and the rewards of the business will permit. It is but just that companies thus organized, enjoying property rights acquired often at the expense of the state, and operating by virtue of special privileges, should be held to the performance of functions for which they were created, and should not so use their privileges as to cause prejudice to the public. They are public utilities and must expect public regulation.

The conditions under which transportation by sea is conducted are totally different. The ocean trade, except for restricted coastwise trades in some countries, is free to all comers. Ships are not fixtures and are not constrained to any fixed line or route. They owe no duty to the state to maintain a service or to serve the public. Their enterprises are of a private nature. They may come and go by whatever route or in whatever direction they please. Their only incentive to engage in any particular trade is to develop such trade to such a point that it will yield a profit which will justify regular and continuous service.

*5. Reasons for difference between land and water transportation.*—This basic difference between transportation by land and by water lies in the fact that in the case of the former the roadway has to be prepared or even created by the expenditure of huge sums. The ocean, on the contrary, requires no such invest-

ment in order to become suitable for the purposes of transportation. It is there, ready to carry all the vessels that are willing to intrust themselves to it. A man who wishes to send a cargo of wheat from New York to Liverpool merely charters a vessel or engages berth space on a liner. But before the wheat can travel from Chicago to New York, years of labor must have been spent, millions must have been invested in constructing a railroad.

This difference in the capital outlay necessary for an effective entrance in the transportation business on land or water means two things. The capital needed to construct the railroad with all its termini, branch lines, equipment and stations, would not be invested without the protection granted by the franchise. This franchise, however, means a serious limitation on the freedom of operation on the part of the railroad. The second result of the high cost of constructing a railroad is the quasi-monopoly resulting from the high cost of reduplication which keeps outsiders out. No franchise is needed to sail the seas, and the possibility of outsiders entering the field of any existing steamship line is almost unlimited. That is the economic meaning of the freedom of the sea.

6. *Guarantees of the freedom of the sea.*—A contrary view to that just stated seems to be expressed in the following paragraph of the majority report of the Special Committee on the Merchant Marine of the Chamber of Commerce of the United States, in 1914:

The ocean lanes are no longer free, trade routes being laid out with as much precision as our great railroad trunk lines, and traversed with almost the same regularity. The line or lines operating are as jealous of their field of influence and resent intruders with as much spirit as do our corporations controlling inland means of communication. Hundreds of agreements exist for protection and to exclude the newcomers, profits or losses are pooled, the number of yearly sailings by each line is apportioned and ports of discharge assigned.

The facts enumerated in this statement are all true but it is difficult to concur in its conclusions. Liners form but a fraction of the world's shipping, whose major part consists of the uncontrollable elements known as tramps. Their mere existence is a guarantee assuring the shipper against the abolition of the much cherished freedom of the sea.

Equally important with a thoro understanding of these distinctions between sea and land transportation, is an exact knowledge of the common terms of ocean shipping. Ocean tonnage is the most important of these terms and, therefore, should be the first to be explained.

*7. Tonnage definitions and tonnage ratios.*—In maritime language there are two kinds of tons—vessel tons and cargo tons.

There are three general methods of measuring a ship and four terms given to the tonnage ascertained. The methods are:

1. By displacement tonnage, expressed in displacement tons.

2. By dead weight tonnage, expressed in dead weight tons.
3. By registered tonnage, expressed as gross tons and as net tons.

The displacement tonnage of a vessel gives the weight of the volume of water displaced by the ship when fully loaded or "down to her marks." The use of the term "displacement tons" is, in general, applied to the war vessels of various nations of the world. These vessels carry no cargo and since the other methods of measuring have a special bearing on cargo and passenger boats, it is fitting that the method of measuring by displacement tons should be applied to the vessels of war. They carry neither cargo nor passengers.

Dead-weight tons are the weight tons (2240 pounds in the United States, Canada and England; 2204 pounds in other European countries) of fuel, cargo, passengers, etc., which a vessel can carry. It is the vessel's dead-weight capability, its carrying power. It is evident that this measure cannot be employed as the universal basis on which the tolls and expenses at various ports should be levied, since the amount of weight a large passenger vessel could carry, would not be at all commensurate with her size. In short, displacement tonnage includes the weight of a ship and all on board; dead-weight tonnage, the weight of the cargo which the vessel can carry.

8. *First proposals of a uniform method of measuring vessels.*—In the earlier days of commerce, con-

tinual friction arose on account of the lack of an adequate method of measuring vessels, a measure which would cover the requirements of all commercial vessels and, at the same time, be uniform thruout the world. Such a method was first proposed in 1837 by M. M. Martin, secretary of the Department of Public Works, Agriculture and Commerce of France. The system at present in force thruout the world, the Moorsom, was adopted by the United States in 1864. It was a method devised by an Englishman of that name. This system, altho employing the term "tons" does not imply thereby the accepted meaning of the word, namely weight. It means units of 100 cubic feet each. It is used to determine the space within a merchant vessel, in units of 100 cubic feet called "registered tons," which it contains.

9. *Moorsom system.*—The tonnage deck of a vessel, having three or more decks, is the second deck from below. On a vessel with one or two decks, the upper deck is the tonnage deck. The length, depth and breadth of the space under the tonnage deck are measured, and the product of these dimensions gives the cubical contents. In a similar manner, the cubical contents of the decks above the tonnage deck are ascertained and the sum of these products gives the cubical contents of the hull of the ship. On the upper deck are various appurtenances and inclosures. The cubical contents of these inclosures—namely, the forecastle, chart-house, round-houses, excess hatchways, bridge and poop—are determined and added to the

former total, and this result is the gross registered tonnage of the vessel. The rules concerning the spaces that shall be included in gross tonnage vary with different countries. Thus a ship would not have the same gross tonnage under the rules of Great Britain as under those of the United States.

Not all the cubical capacity of a ship is available for passengers and cargo. Crews' quarters, masters' quarters, officers' quarters, chart-room and stores have no earning power. To ascertain the net tonnage, the cubical contents of these inclosures and quarters must be deducted from the gross tonnage. Were the gross tonnage the only tonnage, and the tonnage on which all taxes, port charges, canal tolls, etc., were levied, there would be an unfortunate tendency on the part of owners to make the crew quarters as small as possible. Therefore, nearly all great maritime nations provide that taxes, with due exceptions, shall not be collected on the gross tonnage. In sailing vessels, the non-earning capacity which corresponds to the engine room and bunkers are the lockers where the sails are stored.

Generally speaking, the net register tonnage is somewhat less than two-thirds of the gross register, in the case of an up-to-date freight steamer. In the case of the high-speed passenger vessels, the net register tonnage may be less than half, sometimes not more than one-third of the gross register. It may be given as a rough rule that the dead-weight capacity of a

vessel is from  $2\frac{1}{4}$  to  $2\frac{3}{4}$  times the net register tonnage.

10. *Freight charges and kinds of tons.*—The application of these kinds of tons to the actual business of shipping must be considered. The cargo ton is of two classes; weight and measurement. In ocean commerce, the metric system of weight measure, which includes the metric ton of 2,204.68 pounds, is more generally used than the English system with its long-ton of 2,240 pounds, which also prevails in the United States and Canada. In American railroad traffic and on inland waterways the short-ton of 2,000 pounds is used almost exclusively.

If a shipment "measures more than it weighs"; that is, if its weight is less than 56 pounds to the cubic foot, the freight will be based upon the measurement ton, which is equal to 40 cubic feet. The figure 56 is ascertained by dividing 2,240—number of pounds in long ton—by 40—the number of cubic feet in measurement ton. The steamship company charges by weight or measurement, whichever way it gets the larger revenue. Grain, minerals and some other similar products move regularly by weight, but manufactures, general merchandise, and, in fact, most kinds of ocean freight are taken at "ship's option," weight or measurement. The option which is taken is ordinarily measurement, since comparatively few commodities weigh more than they measure. The reason why the measurement ton has the size of forty cubic

feet is due simply to the fact that a weight ton of Russian wheat occupies forty cubic feet. This explanation seems plausible when we consider that wheat has long been the greatest staple of ocean commerce and that Russia represents its chief source.

11. *Computing net tonnage from gross tonnage.*—It has been remarked that there are different methods of computing net tonnage from gross tonnage. The fact that the American method of measuring tonnage results in a considerably higher ratio of net to gross, than under the British method, is often cited as one of the obstacles to the building up of an American merchant marine. Port charges, tonnage dues and any other charges such as canal tolls are levied upon net register tonnage. For example, Captain Robert Dollar in the *Pacific Marine Review* of August, 1913, complained that his steamer *Hazel Dollar* measures 2,800 net tons by British measurement and 3,582 by American, which amounted to 779 net tons more than the British registry would give him. However, much of the force of this argument is lost when it is recalled that most American vessels in the foreign trade possess the necessary papers to show their registered tonnage according to both British and American measurements so that they can avail themselves of either, as convenience demands.

Also in regard to dead-weight capacity, superiority over the American regulations is claimed for the British rules. All British steamers<sup>1</sup> have a load line

<sup>1</sup> This applies also to Canadian vessels.

painted on the outside of the ship to indicate the depth to which the ship may be loaded without possible danger to life and property. This is known as the Plimsoll line. The scale of feet painted on an American vessel does not offer the same guarantee. As more vessels engage in oversea trade, the desirability of this Plimsoll line will probably be more generally realized.

12. *Cargo space and dead-weight capacity.*—In order to use the cargo space of a vessel to the greatest possible advantage, discrimination is called for in the mixing and stowing of measurements and weight cargo. There are few commodities which, when used alone, assure an economical loading of the ship. Wheat comes as close to the ideal as almost any other commodity. In the case of pig iron, the dead-weight capacity of the ship will be reached when still four-tenths of the cargo space is empty. On the other hand, a cargo of cotton will completely fill the available space without utilizing the ship's dead-weight capacity. We find that even in the case of a steamer which takes lumber across the ocean, careful selection of various classes of wood is made in order to assure the most profitable and complete loading of the vessel. Frequently cotton is added to fill space, and a deck-load of timber or logs is used to complete the cargo. In the chapter on freight rates, we shall explain how liners, by means of their freight rate policy, influence the type of cargo that is forwarded to them for shipment.

13. *Ship inspection and registration.*—All ships flying the American flag are listed by the United States government.<sup>1</sup> Their machinery, life-boats, boiler and the whole equipment are inspected annually by an inspector connected with the Bureau of Navigation of the Department of Commerce. In addition to this government inspection, plans and specifications prepared for the construction of vessels are passed and approved by private institutions whose main business is marine insurance; such as the famous Lloyds, Bureau Veritas and the American Bureau of Shipping. They also watch every step in building, and test the materials used. On the basis of these observations, the vessel is rated. This rating forms the basis upon which insurance companies accept and assess risks on hulls. If all conditions imposed upon ship-builders and ship-owners are complied with, our government "registers" the vessel if it is to engage in foreign trade. Vessels employed in coastwise and inland trade are enroled. The certificate of registration is to a vessel what citizen papers are to the individual. They entitle the ship to the protection of the government whose flag it flies and to the enjoyment of all the privileges guaranteed by international law or special treaties. In case of war or international complications, the vessel often procures a passport or "sea-letter."

Numerous documents called ship papers must be

<sup>1</sup> Similar provisions for the inspection and registration of vessels desirous of being entered on the Canadian registry are enumerated in detail in the Canada Shipping Act.

N.Y. Oct. 20, 1900

The United States of America

DEPARTMENT OF COMMERCE

BUREAU OF NAVIGATION



## CLEARANCE OF VESSEL TO A FOREIGN PORT

(Section 4801, Revised Statutes)

DISTRICT OF NEW YORK

PORT OF NEW YORK

These are to certify all whom it shall concern:

THAT \_\_\_\_\_

Master or Commander of the \_\_\_\_\_

burden \_\_\_\_\_ Tons, or thereabouts, mounted with \_\_\_\_\_

Guns, navigated with \_\_\_\_\_ Men, \_\_\_\_\_

built and bound for \_\_\_\_\_

\_\_\_\_\_  
\_\_\_\_\_

having on board \_\_\_\_\_

## MERCHANTS AND STORES,

hath here entered and cleared his said vessel, according to law.

GIVEN under our hands and seals, at the Custom-House of the Port of New York, this \_\_\_\_\_

day of \_\_\_\_\_, one thousand nine hundred and \_\_\_\_\_

and in the \_\_\_\_\_ year of the Independence of the United States of America.

Deputy Marshal Officer.

11-1900

Deputy Collector.

DEPARTMENT OF COMMERCE,  
U. S. PUBLIC HEALTH SERVICE,  
REGULATIONS FOR  
PORT SANITARY STATEMENTS,  
U. S. PUBLIC HEALTH SERVICE.



## PORT SANITARY STATEMENT,

U. S. PUBLIC HEALTH SERVICE.

Port of \_\_\_\_\_

Vessel: \_\_\_\_\_

Bound from \_\_\_\_\_ to \_\_\_\_\_

Number of cases of and deaths from the following-named diseases reported during the two weeks ending \_\_\_\_\_, 1911

DISEASES.	NUMBER OF CASES.	NUMBER OF DEATHS.	REMARKS. (Any condition affecting the public health existing in the port to be visited here, including operations in regard examination and extermination.)
Cerebro-spinal Meningitis (epidemic) .....			
Cholera, Asiatic .....			
Diphtheria .....			
Measles .....			
Plague .....			
Poliomyelitis (poliomyelitis) .....			
Scarlet Fever .....			
Smallpox .....			
Typhoid Fever .....			
Typhus Fever .....			
Yellow Fever .....			
TOTALS .....			

Vessel last fumigated at \_\_\_\_\_, 19\_\_\_\_

Given under my hand and seal this \_\_\_\_\_ day of \_\_\_\_\_, 1911



4-748

Surgeon, U. S. Public Health Service.

executed before a ship may enter or clear from a port. For example, no vessel from a foreign port can enter a port of the United States without a clean bill of

health. If a steamer is to leave Hongkong for San Francisco it must, before departure, secure from the American Consul at Hongkong a document which states that the vessel is free from contagious diseases. If a contagious case is known of in the port of departure, that fact is noted on the bill of health. When the vessel enters San Francisco, this paper is given to the quarantine officers, who are the first to board the ship upon its arrival. Only after the most careful scrutiny of this paper, and a thoro examination of passengers and crew, is the vessel granted entry. This is outwardly indicated by lowering the yellow flag which is flown from the foremast while the ship is passing inspection.

When a vessel leaves the United States or Canada for a foreign port it must take a "port sanitary statement"; a revised form of the bill of health. It must also be provided with clearance papers. In the latter the language gives evidence that the form was prepared many years ago. Illustrations of these documents are given on pages 209 and 210.

*14. Regulations governing the manifest.*—The next authority to be satisfied by the entering vessel are the officials of the Customs House service. They inspect the list of passengers and the list of stores. The list of passengers serves in the preparation of statistics, showing the emigration and immigration, and in a minor way for the purpose of detecting criminals and undesirable aliens. The list of stores is

intended to separate the cargo from the provisions left after the voyage. The most important document is the manifest. This is a declaration of the entire cargo, a summary of all the bills of lading.

#### REVIEW

What is the significance of the phrase "freedom of the seas" in international law, and what is the economic interpretation?

What are the fundamental differences between land and water transportation?

State the different meanings of the word tonnage.

How is net tonnage distinguished from gross tonnage?

How is freight charged? State the rule for using the weight ton or measurement ton.

Why are mixed cargoes desirable?

Describe a bill of health.

## CHAPTER II

### OCEAN CARRIERS

1. *Ship development.*—On land the railroad represents the unit of transportation, on the ocean it is the ship. Just as the railroad equipment, particularly the locomotive, during the last century passed thru various stages of a remarkable development, the ocean carrier underwent as many changes. The ship of today is sixty times bigger and many times faster than its prototype of George Washington's time. On the even basis of ton for ton, the shipping of the present is five or six times as efficient as that in the early days of this nation. This is the result of the substitution of steam and oil for sails as motive power, and of iron and steel for wood as material of construction. When we compare the leviathans of today, with their gross register tonnage of 50,000 tons, with the 400 ton ships that were the pride of Salem a century ago, we must indeed marvel at the progress of mankind upon the sea.

From the viewpoint of engineering, the size of the vessel is limited only by the depth of the channel traversed and the draft permissible at the termini, not by difficulties inherent in the construction of the vessel or its operation. The Suez Canal, because of its lim-

ited dimensions does not allow the passage of any ship of more than 8.58 meters draft, 22.86 meters width and 170.86 meters length, thereby restricting the entire tonnage available for the trade with the Orient to a maximum which begins to prove burdensome. The time will come when the Panama Canal also, in spite of the gigantic dimensions of its lock constructions, will be a check upon the natural development of ship-building in regard to the size of vessels using it. It will be recalled with what difficulty New York obtained from the War Department permission to extend its pier head lines in order to care for the Olympic and Imperator.

2. *Causes of growth.*—The enlargement of ships was rendered profitable by the vast increase in the volume of trade during the last century. The growth was stimulated by the keen competition existing among rival steamship lines, which only in recent years came to satisfactory agreements with each other. The growth was made possible by the development in the art of ship-building, particularly with regard to the marine engine. The increase since 1840 in the effective power obtained by marine engines from the combustion of coal is shown in the following table:

In 1840, 1 lb. coal propelled	0.578	displaced tons at 8 knots
In 1850, 1 lb coal propelled	0.6	displaced tons at 9 knots
In 1860, 1 lb. coal propelled	0.82	displaced tons at 10 knots
In 1870, 1 lb. coal propelled	1.8	displaced tons at 10 knots
In 1880, 1 lb. coal propelled	2.1	displaced tons at 10 knots
In 1890, 1 lb. coal propelled	3.83	displaced tons at 10 knots
In 1898, 1 lb. coal propelled	3.5	displaced tons at 10 knots

This greater efficiency is due primarily to the

development of the compound engine and the steam turbine, which have multiplied the energy obtained from a pound of coal. Moreover, the earning weight of the displacement ton has considerably increased as a result of more efficient construction methods. Thus the .578 displaced tons, given in the preceding table for 1840, represented an earning weight of but .057, while the 3.5 displaced tons of 1898 correspond to a weight efficiency of 2.1. Today  $\frac{1}{10}$  of a ton of coal will bring a ton of cargo 5,000 miles.

3. *Steam and sail tonnage.*—Less than a century ago, the steam vessel was a dream of enthusiasts; today the steam tonnage represents 93 per cent of the total gross register tonnage of the world. During the 25 years ending July 1, 1915, the total tonnage of the world's merchant marine showed an increase of 122.7 per cent while the total steam tonnage during the same period increased 252.2 per cent. If the carrying service of the steam tonnage could be measured, it would show an even greater preponderance over the sailing tonnage because of the greater carrying efficiency of the steamer, due to its ability to make faster and more frequent trips.

As late as 1890, sailing vessels had the upper hand over steamers in tonnage; and as late as 1896 in numbers. Shipping under the American flag contains a larger proportion of sail-tonnage than is the case of the merchant fleets of most countries.<sup>1</sup> This

<sup>1</sup> On December 31, 1915, there were on the Canadian registry 4,625 sailing vessels with a gross tonnage of 491,928, as compared with 4,132 steam vessels aggregating 758,745 tons.

is due to the fact that the American coastwise trade is restricted by law to American vessels only. The elimination of competition is responsible for the fact that an obsolete type of vessel, which in other fields of ocean shipping could not withstand the modern steamer, could hold on to a certain portion of its former exclusive domain. In the United States, also, the sailing vessel is losing ground, the total steam tonnage having grown from 1,859,088 tons in 1890 to 4,854,748 in 1915; an increase about five times as rapid as that of the total tonnage of the United States' merchant marine.

The coasting trade of Canada is open to any British ship, or to the ships of any foreign state given such rights by a British treaty. A foreign-built British ship must take out a license and pay a duty of 25 per cent on her market value before engaging in the coasting trade of Canada. Finally, the Governor in Council may open Canada's coasting trade to the ships of any foreign country which grants Canadian ships similar privileges.

The sailing ship possesses advantages in its free motive power and its relatively small crew requirements. But these are more than offset by slow speed and uncertainty as to the time of delivery of the cargo. These two qualities of speed and regularity have become more and more important. The international exchange of goods is based on contracts made before the departure of the vessel. It is estimated that the steamer possesses four times the sailing ship's

efficiency as a cargo carrier, altho 1/4 to 1/3 of the steamer's hull capacity is occupied by bunkers and machinery. Turbines, compound engines, slender speed lines made possible by the use of steel in construction—all these have meant regularity, speed, more voyages per year.

4. *Oil-burning vessels.*—The latest phase in the development of the steamer is marked by the introduction of the Diesel engine. The oil-burning vessel will probably play an important part in the future history of shipbuilding and shipping. There is a threefold saving incident to this type of propulsion. There is a reduction in cost of wages because of reduced boiler-room requirements and consequently a smaller crew. An offset to this item lies in the higher initial cost of the ship, higher insurance rates and greater cost of repairs. But the main saving is in the cost of fuel. A typical freighter operating between San Francisco and Valparaiso, Chile, making five trips a year, will consume on each voyage an average of 231 tons of oil instead of 597 tons of coal. On the Pacific, the average cost of coal suited for steam purposes is about \$6 per ton while the price of oil is \$7. In this case the saving in the cost of fuel is about \$20,000 a year. Moreover the carrying capacity of the vessel is increased by about 5 per cent, owing to the fact that smaller space is occupied by the propelling machinery and required for the storing of oil. Even steel can sometimes be carried in the double bottom.

While the internal-combustion engine is peculiarly

adapted to freight ships up to about 5,000 gross tons, it is not limited to that class of vessels. Thus, when the Pacific Mail Steamship Co. planned to instal four 37,000 ton steamers in the New York-Orient service subsequent to the opening of the Panama Canal, they were to be equipped with oil-burning engines. President Schwerin estimated that the cost of oil would be approximately \$4 a ton as against \$6.50 for the ton of coal.

The limiting factor of the Diesel ship is that the machinery is as yet too delicate to stand the pounding of the North Atlantic winter. As yet the vessels are used predominantly in the warm water trades.<sup>1</sup>

*5. Future of the sailing ship.*—Tho the sailing vessel is being outclassed more and more by its more efficient rival, it is not to be assumed that it will vanish altogether. In two distinct services, its usefulness will probably continue; in the coasting trade, which for some districts and some products is irregular and can not easily be organized into steamer service; and in the skirmish work of international trade, which must precede the establishment of new steamer connections. But the long cherished theory that the sailing vessel will remain the exclusive carrier of certain classes of bulky commodities on long voyages, such as the nitrate cargoes from Chile to Europe, will have to be

<sup>1</sup> A refinement of the Diesel principle in ship propulsion is found on the newest U. S. war vessels. For example, the "California" has oil-driven engines turn its dynamo, while motors utilize the current thus produced, to run the propellers.

dismissed, in the face of the recent development in these trades.

*6. Replacement of wooden by iron and steel vessels.*

—Even more rapid than the advance of the use of steam for propulsion was the development from the wooden to the iron and steel hull. The Civil War lent a strong stimulus to this movement by introducing the ironclad into the war fleets of the world. The new theory aroused other countries more strongly than the United States. Just as the supremacy of the American sailing vessel had been challenged by the British steamer, so Great Britain also took the lead in the construction of iron and, since 1880, steel merchant vessels. In England, economic conditions favored this transition from the wooden to the metal hull just as they impeded the same development in this country. England, devoid of forests and supplies of timber, led the world in the manufacture of iron, while the United States enjoyed such an abundance of cheap lumber that American ship-builders were loath to give up this advantage. The wooden vessel has practically disappeared from the merchant marine of Great Britain. In 1916, over 99 per cent of all hulls were metal (4/5 steel). In the United States up to 1870 the progress made in the construction of iron hulls was negligible and in 1916 over one-half of the tonnage under the American flag was of wooden construction in spite of the unquestionable superiority of metal over wood.

*7. Classification of merchant fleet in regard to*

*service.*—From the standpoint of service rendered we may classify the modern merchant fleet of the world in the following way:

- |  |  |
|--|--|
| 1. Freight<br>steamers.<br><br>2. Combination<br>Freight and<br>Passenger<br>Steamer<br><br>3. Passenger<br>Liners | <div style="display: inline-block; vertical-align: top; margin-right: 20px;">           Running as tramps (cotton carriers, serv-<br/>ing Galveston).         </div> <div style="display: inline-block; vertical-align: top;">           Running as liners (all lines to South Amer-<br/>ica except Lamport and Holt).         </div> <div style="display: inline-block; vertical-align: top;">           Primarily Freight (Leyland Line, Bos-<br/>ton).         </div> <div style="display: inline-block; vertical-align: top;">           Half and Half (S.S. George Washington).         </div> <div style="display: inline-block; vertical-align: top;">           Primarily Passengers (North German<br/>Lloyd).         </div> <div style="display: inline-block; vertical-align: top;">           Express lines, with emphasis on speed<br/>(Mauretania).         </div> <div style="display: inline-block; vertical-align: top;">           Liners, with emphasis on luxury (Impera-<br/>tor).         </div> |
|--|--|

This detailed classification is by no means found in every trade of the world. It is found at its highest stage of development in the transatlantic service, particularly that connecting the North Atlantic ports with the northwest of Europe. Here is found the greatest density both of freight and passenger traffic. This naturally attracts the powerful steamship lines of all countries.

8. *Tramp distinguished from liner.*—From the table above it appears that while tramps are exclusively employed to carry freight, liners only in exceptional cases (i.e., in the highest stages of their development) confine themselves to passenger service. Most liners carry freight besides passengers; some carry freight exclusively.

The division between liner and tramp is the most fundamental in the classification of merchant vessels. In 1912 the oversea commerce of the world was conducted by more than 25,000 steamers of which 1,555 were liners. The remaining 23,500 vessels were tramps. While the liners were owned by barely more than one hundred companies the tramps were scattered among approximately 4,100 companies, firms, and individuals. The liners being the largest vessels in the world's shipping industry, it is only natural that when gross register tonnage is taken as the norm of comparison the preponderance of the tramp is considerably less striking than appears from a comparison of the numbers. Thus it has been estimated that out of 44,000,000 tons of shipping owned in the world in 1912 2/3 were tramps, of which Great Britain owned at least 70 per cent.

A tramp steamer is a cargo steamer which is built for hire and is not connected with any particular service. A vessel may be operated either singly or as the member of a line. The tramp is operated as a single unit. In the Report of the Royal Commission on Shipping Rings the difference between the service supplied by the liner and the tramp is described as follows:

The tramp loads and usually discharges at one port and preferably a port where the dues are small. It does not sail at a fixed date, but waits until it has a full cargo. Moreover, the tramp does not confine itself to a particular trade. It comes into a trade when the freight prospects are good and

leaves it when they are bad. It acknowledges no obligation except to go wherever it can obtain the highest freight.

The liner, on the other hand, generally sails according to a fixed timetable almost with the regularity of a railroad train and she sails whether full or not full. She usually loads and discharges at several ports (to serve her trade) and consequently has large expenses in port dues and charges, and most important of all she stays in the trade whether the times are good or bad. Moreover, whereas in the case of the tramp the charter party usually requires the merchant to discharge at the rate of so many tons per day with heavy penalties for demurrage, the discharging in the case of the liners is effected by the liners themselves, at their own risk.

9. *Construction of tramp steamer.*—First of all, the tramp steamer is a comparatively inexpensive vessel built for the sole purpose of carrying bulk cargoes as cheaply as possible. Speed being a secondary consideration with the tramp steamer, its construction can be planned along the lines of greatest carrying capacity. It is therefore built in full form upon a sort of general average model, to fit it for as many kinds of services as possible. The "block co-efficient" of a tramp steamer is usually around 80 per cent, while that of a fast ocean liner is hardly more than 62 per cent. That is, if you were to pack a tramp in a square box that barely contained her she would occupy 80 per cent of the box; while the liner—being cut away fore and aft—would fill but 62 per cent of her container.

Further economy of construction of the tramp is obtained by the standardization of tramp steamer

building. This has been carried to a high degree especially in Great Britain.

10. *Economies of the tramp.*—The economies of operation of the tramp steamer center around the low speed adequate for its service. The coal consumed by a fast liner in one day would serve the average tramp for weeks. It is a well known law of physics that high speed is attained at a much greater expenditure of power per unit than that required to traverse the same distance at a lower speed. The coal consumed by the *Mauretania* in attaining a speed of 25 knots is not double, but probably 20 times the amount of coal consumed by a freighter, assuming the latter is content with a speed of 12½ knots. Greater speed also demands greater engine room, bunker space and crew accommodations, thus leaving less space for freight. The advantage of greater speed is more frequent voyages in a year and higher freight rates per voyage. Therefore the most economical speed will be determined by duly weighing the favorable and unfavorable results of speed increase. The point of equilibrium between these two groups of factors will be constantly raised by improvements in the construction of the vessel and in the engine; at present it lies at about 11 knots an hour. In twenty years this most economical speed was increased about 3 knots. In the same period the most advantageous size of tramp has increased from 5,000 to 7,200 tons.

11. *Occupation of the tramp.*—The tramp steamer's chief occupation in marine transportation con-

sists in the carrying of low-grade freight and bulk goods such as grain from the Black Sea, Argentine, North America, and India; ore from Spain, Chile or Cuba; timber and cotton from Gulf ports; nitrate from Chile; soy beans from Manchuria; sugar from Java; jute from India; clay, chalk and coal from England. Only occasionally do manufactures also move in full cargo lots. The International Harvester Company ships in tramp steamers a considerable number of full cargoes to regions like the Black Sea to which there is no adequate liner connection from this country, and to other sections which possess liner connections, but do not afford sufficient liner space for the heavy seasonal shipments of the International Harvester Company.

12. *Legal status of the tramp.*—The legal status of a tramp differs essentially from that of the liner. The chief distinction is that only the latter is considered a common carrier. It has been well established by a long line of decisions in the Federal Courts that whenever a charter party gives the charterer the full capacity of a ship, the owner is not a common carrier, but a bailee to transport as a private carrier for hire. When, however, a tramp is taken out of its regular service and is made a part of a line service, its cargo space being rented to various shippers, the tramp of course loses its peculiarity and becomes a common carrier.

Such a transfer frequently occurs. In nautical language this is called "keeping the tramp on the beat." The reverse takes place when a liner is sent "tramp-

ing." This interchangeability shows that the line of demarcation between the liner and the tramp is not so clearly drawn as sometimes is assumed. It is a difference in ship use, not in ship type. This naturally can refer only to the lowest type of line vessel, i.e., that which is confined solely to the carrying of freight. The liner in its higher forms of development is too different in construction to allow an interchange of the nature described. As Kipling said, "the liner, she's a lady," and as such is too good to perform the menial work of the tramp. The liner is a thorobred, while the tramp is the truck-horse of the ocean.

*13. Operation and management of liners.*—From our division of merchant ships into seven classes it is evident that considerable difference exists between the various types of liners. However, there are certain principles common to the operation and management of them all. High cost of construction, high speed, high cost of maintenance and management, expensive office and soliciting forces—these all drive the expenses of the regular line trade far beyond the point reached in the charter traffic. But these expenses assure the liner advantages in the form of higher freight rates, lower insurance rates, and the enjoyment of a reliable clientele. The liner monopolizes the valuable passenger traffic and the carriage of mail and of valuable express cargo.

While mixed cargoes of general merchandise in less than cargo lots form the specific domain of line serv-

ice, there are certain heavy commodities which require line service. Just as human freight exacts certain considerations from the shipbuilding engineer, so do many kinds of freight. Thus, perishable goods like carcasses and fruits require vessels especially constructed for their transportation. Australian and Argentine meat, and bananas from the West Indies, are not carried by tramps, but by liners especially adapted to the particular requirements of these trades.

Even the carrying of coal is not exclusively reserved to the tramp steamers. In the short-voyage service between the east coast of England and Scotland and the Continent, especially to Hamburg and Rotterdam, it pays to instal automatic discharging machinery in colliers which run according to regular schedule. Likewise, the gas company at Boston has a regular service of colliers that supply it with coast-wise coal.

A concrete illustration of the various types of vessels discussed in this chapter will be found in the following table, which shows the capacity, speed, and power of a typical tramp, a freight-carrying liner, several combination vessels and of the two types of purely passenger ships.

Vessel	Gross tonnage	Net tonnage	Dead weight capacity	Average speed at sea (knots)	Indicated H.P.
<i>Tramp</i> <sup>1</sup> .....	4,665	2,930	7,800	10½	2,500
<i>Freight-carrying Liner</i> “Norderney” .....	5,496.6	3,572.51	7,700	10½	2,000

Vessel	Gross tonnage	Net tonnage	Dead Weight Capacity	Average speed at sea (knots)	Indicated H.P.
<i>Combination Vessels</i>					
"Breslau" .....	7,524.09	4,807.86	8,600	12½	3,600
"Minnewaska" .....	14,317	8,878	15,000	15	.....
"George Washington" ...	25,569.85	15,378.74	18,300	19½	21,000
<i>Express Steamers</i>					
"Kronprincesin Cecile" ..	19,503.22	6,584.44	8,300	23½	45,000
"Bismarck" <sup>2</sup> .....	56,000	24,000	15,000	25	.....
"Mauretania" .....	31,550	9,145	1,500	25	68,000

<sup>1</sup> Typical tramp, computed from latest available figures, by Engineer's Society of Northern England.

<sup>2</sup> Approximate figures.

## REVIEW

In the modern development of shipping what places limits upon the size of vessels?

Is the sailing craft likely to disappear altogether from ocean commerce?

What advantages result from the substitution of oil for coal as fuel, and what appear to be the limitations in the use of oil-burning vessels?

What is a tramp? What is a liner? How do they differ in construction and in legal status?

What points of superiority has the tramp as a cargo boat over the liner?

How does the trade utilizing the liner differ from that employing the tramp?

## CHAPTER III

### PUBLIC AND PRIVATE CARRIERS

1. *Epoch of the merchant carrier.*—So far we have followed the development of the ocean carrier from the standpoint of technical improvement and of service rendered. We have looked upon the vessel as an instrument for the interchange of commodities and persons, without regard to its relation to those who furnish the cargo, i.e., the shippers. The shipper is either a merchant or a manufacturer. The relation between these two classes and the ship owner forms the basis of the following discussion.

Until about 1812, at the end of our second war with Great Britain, the unit of ocean transportation was the single private vessel. It belonged and was used by a merchant or a roving captain and his associates, who formed a trading company that used the vessel. In those days the vessel did not carry for all shippers; it was not a public carrier.

There are many reasons why this primitive type was not, at an earlier date, superseded by the public carrier. First of all, the time consumed in the exchange of correspondence and documents referring to the sale of and payment for merchandise was such as to be almost prohibitive to the development

of a public carrying service, whose requisite is found in the sale of the cargo to the foreign consignee before the departure of the vessel. In addition, the present form of consignment shipments is based on an extremely high development of mercantile organization and was out of the question a century ago. In those days it was only natural that the merchant himself should own and operate the ship, and therefore that each vessel should be the trading unit. The small sailing vessel then used could easily be filled by the wares of one enterprising merchant. It was not essential whether the merchant himself conducted the voyage or intrusted his wealth to a reliable captain or to a "supercargo." International trade consisted largely of luxuries and exotics, and only a few firms dared to enter this adventurous business. Therefore, both the steady flow of merchandise and the multitude of shippers, which characterize the foreign commerce of today, were lacking. The need for public carriers did not exist. Finally, the unsettled conditions of the period formed an unsurmountable obstacle to the establishment of regular trade connections. Semi-piratical conditions prevailed on the sea, and foreign navies vied with privateers and pirates in preying upon American ships; plain commerce was daring adventure.

2. *Coming of the public carrier.*—A great change in shipping practice took place when men, instead of building vessels to use themselves, built them to be rented or chartered to shippers. While chartering

is almost as old as history, it did not affect the western world until the end of the eighteenth century.

As chartering came into vogue more generally it was deemed advisable to establish foreign branches and agencies who took care of the cargo after delivery and attended to the assembling of a return cargo, in imitation of the great East India companies. This growing organization of shipowners proved valuable in the subsequent establishment of regular steamship lines.

Repeated attempts to establish such lines appear to have been made toward the close of the eighteenth century, but not until peace and security were firmly established were these efforts crowned with success. Considerably later, when the flow of bulky goods, such as timber, grain, coal, and ore, had become so continuous and voluminous that the full cargo lot became the unit of transportation, the modern tramp entered the field. Even a short outline of the development of the public carrier in the line and charter traffic would lead too far. The public carrier is still the ship of today, and wherever private carriers are found they have come into use because of special conditions which will be discussed below.

*3. Renaissance of the private carrier.*—The main cause of the return of the private carrier is to be found in the magnitude of the modern corporations. This has made possible the handling by one concern of such vast quantities of coal, iron, petroleum, asphalt, fruits, and other products that the use of steamship lines

as part of a single business has become economical.

To understand this development we must ascertain why the services of either the modern liner or the modern tramp are insufficient to satisfy the requirements of twentieth century shippers. It is true that the modern liner takes large quantities of bulk commodities, but this portion of the business is looked upon as a by-product. The bulk goods serve to fill the space left vacant by the better-paying general merchandise. It therefore follows that if commodities, such as steel rails and the like, move in directions where general cargo can not be obtained, it would not pay to establish a public line. The regularity and the volume of these movements, however, sometimes assume such dimensions that the establishments of regular sailings is necessary for the private corporation. The result is the private line.

Another reason for the establishment of private lines may be found in the necessity of providing vessels built especially to meet the requirements of a particular trade. In either case, the same factors that favor the development of large-scale production and the consolidation of enterprises along horizontal as well as vertical lines, are also applicable to these cases of absorption of the water-transportation service by the manufacturing or producing corporation.

*4. Examples of private carriers.*—An example of the first case of private-line establishment is the service between New York and Brazil, established by the United States Steel Corporation, inspired by large

contracts for rail and other steel products which had been secured in Brazil. The company announced: "The ships of this line will seek general cargo in addition to that supplied by the Steel Corporation for its Brazilian customers, and furthermore, whether loaded or not, the ships will return from Brazil direct to New York."

The best example of the establishment of a private steamship line to meet the special requirements of a particular trade is afforded by the United Fruit Company. The fact that this company has gradually developed into one of the greatest common carriers of this country makes this case particularly interesting. This line is still a private steamship line, because the carrying of passengers and general freight is only incidental and a by-product of the transportation of the company's own products; bananas and sugar.

5. *United Fruit Company and the Banana trade.*—The United Fruit Company operates or controls the majority of the steamers engaged to carry bananas and other fruit from the West Indies and the Caribbean regions to the United States and Europe. The banana trade is comparatively young. Only twenty years ago the banana was a luxury. While the banana trade was undeveloped, all of it was carried by tramps chartered either for one voyage or for a season. The ordinary tramp vessel proved too slow to render satisfactory service to the banana shipper. A ship-builder, however, will not construct a vessel suitable for only one particular purpose unless constant em-

ployment is guaranteed. Either he will sell it or, if it is to be chartered, he will insist upon a time charter covering a considerable number of years. This difficulty in supplying necessary and suitable tramp tonnage for the banana shipments, coupled with the increasing demand for regularity in the trade, led to the establishment of the line service of the United Fruit Company in 1899.

The largest ship employed by this company during the first year of its existence was a vessel of 2,000 tons, and had a storage space for 35,000 bunches of bananas. During the early years all the company's ships were chartered from Norwegian or other foreign owners. Soon it became necessary to acquire vessels better suited for the carrying of bananas northbound and of the general merchandise which was sought as a return cargo. This led to the upbuilding of the "Great White Fleet," a line of stately steamers which are among the best of all the ships sailing under the American flag. This flag does not fly on all of the forty-three vessels which today form the fleet of the United Fruit Company, representing a gross register tonnage of over 200,000 tons; about one-half are under British registry and a certain percentage still under Norwegian.

*6. Coal and petroleum carried by private lines.—* Other trades in which private or industrial lines<sup>1</sup> have

<sup>1</sup> Among examples of private or industrial lines in Canada may be mentioned the steamers operated by the Dominion Coal Co. (the Black Diamond Line), the Nova Scotia Steel and Coal Co., and the United Fruit Companies of Nova Scotia, Limited.

been established are the asphalt, lumber, coal and petroleum trades. Recently the Pocahontas Consolidated Collieries Company, together with the Pocahontas Fuel Company, formed the Pocahontas Navigation Company. They have acquired a fleet of steel vessels of over 5,000 tons each, which will carry coal and other merchandise to foreign ports.

A more conspicuous example is offered by the petroleum trade. Here the special tank vessels offer great advantages with respect to greater utilization of the cargo space of the vessel and elimination of unnecessary handling. These advantages are so great that even the impossibility of taking return freight and the consequent expense of ballast voyages cannot offset them. Only large concerns with large capital can afford to engage in this business, for not only must the vessel be supplied, but heavy capital investments are required to build pipe lines from the well to the shore, and to furnish pumps, tanks and other equipment at the seaboard.

In recent years the tank steamer has begun to be superseded by the tank barge, a tank vessel which does not proceed under its own steam but is towed by a tug. These barges are no novelty in the American coastwise trade, and now they even cross the Atlantic.

7. *Merchants' private lines.*—The examples of private lines given so far were industrial lines, lines controlled by the manufacturer, or producer. But merchant houses have grown into such powerful and wealthy corporations that the volume of their business

justifies the establishment of their own lines. Thus W. R. Grace and Company, one of the largest mercantile firms of the United States, owns the "Merchant's Line," furnishing bi-monthly service from New York to all ports on the west coast of South America. The latest ships in this trade, like the *Santa Barbara*, are of as much as 10,000 tons displacement. W. R. Grace and Company recently acquired several vessels of the former Pacific Mail Steamship Company. A much younger but very keen rival is the firm of Gaston, Williams and Wigmore, which altho not yet owning its ships, keeps up a regular line service by means of chartered vessels. The German steamship line known as the Woermann Line was originally established as a branch of the famous Hamburg mercantile house of Woermann. The Elder Dempster line of Liverpool is owned by the same people who control the trading firm of that name. However, in their present form these lines could hardly be classed as private.

#### 8. *Pacific Ocean and the railroad-steamship line.—*

The Pacific Ocean, because of the length of passage and the absence of purely local traffic, seems to be the natural sphere of the railroad-steamship line. Until recently the Pacific Mail Steamship Company, controlled by the Southern Pacific Railroad, divided the field with the Great Northern Steamship Company of the Hill roads, the Pacific service of the Canadian Pacific Railroad and certain Japanese lines. Of these the Canadian Pacific Company, with its lines on

both oceans, is by far the most powerful of all the railroad-steamship lines. It is encouraged and subsidized by the British and the Dominion governments and has done much to build up the trade and commerce of our neighbor in the north. United States railroads have proved their enterprising spirit by establishing trans-oceanic services on the Atlantic. Thus, the Pennsylvania Railroad Company participated in the establishment of the American Line to Liverpool. The present Johnston Line from Baltimore to Liverpool was originally owned by the Baltimore and Ohio Railroad.

9. *Foreign railroad-steamship lines.*—In England the railroad-owned steamship line is common in almost all the shorter routes from ports on the east coast to the Continent and also in the service across the Georgian Channel, separating Ireland from Great Britain. Thus the North Eastern Railroad runs a line in its own name from Hull to a large number of Continental ports. The Lancashire and Yorkshire Railroad has services to nine ports of the Continent and to Scandinavia. The British railroads have, thus far, not entered the trans-oceanic business and there is little reason to believe that they will do so in the future, because of the splendid steamer connections between almost all ports of moderate significance. The oversea needs of the country seem to be adequately covered now.

To those who are anxious to see the American flag on the ocean restored to the place of honor it once

held, the effect of hostile legislation on the growth of American railroad-steamship lines must seem one of the most unfortunate occurrences of recent economic history. The Pacific Mail in 1912 asked permission to build four 37,000 ton American liners to run from New York to the Orient thru the Panama Canal, calling at San Francisco. These boats, in addition to the large boats which the Pacific Mail already had, would have given us an excellent fortnightly service to the Far East. Congress refused to let these boats carry freight from New York to San Francisco, a service which alone would have made the venture profitable.

**REVIEW**

Why could not public ocean carriers grow up under trade conditions of the eighteenth century?

What conditions have favored the growth of public carriers?

Describe the private carriers established on the ocean by various manufacturing concerns.

Name some of the more important lines operated by merchants.

Explain how railroads came to enter the field of ocean transportation.

## CHAPTER IV

### OCEAN FREIGHT SERVICE

1. *Growth of sea-borne trade.*—The 19th century has witnessed a greater expansion of ocean commerce than all the centuries past. The British foreign trade in coal, which is by far the most voluminous branch of the world's shipping, has grown from its insignificant beginnings of 100 years ago to the almost incredible size of 65,000,000 tons. To grasp the real meaning of this figure, one should think of an ordinary railroad freight car of a capacity of 25 tons, and imagine a line of 2½ millions of such cars stretched out across the surface of the earth. To be sure, no other branches of the trade of the world even approach the magnitude of these figures. When compared with the insignificant amount which represented the commodity exchange of only 100 years ago, the following figures showing the bulk of exports and imports of the United States are astonishing:

#### BULK OF EXPORTS AND IMPORTS

#### APPROXIMATE TONNAGE OF DOMESTIC EXPORTS, FISCAL YEAR 1914

Cotton .....	2,220,000 tons
Mineral oils .....	4,100,000 tons
Fertilizer .....	1,540,000 tons

Coal (except Canada).....	4,500,000 tons
Naval stores .....	85,000 tons
Oil cake .....	750,000 tons
Tobacco .....	200,000 tons
Wheat .....	170,000 tons
Corn .....	220,000 tons
Oats .....	28,000 tons
Rye .....	55,000 tons
Dried grain .....	60,000 tons
Lumber (all kinds).....	3,180,000 tons

**APPROXIMATE TONNAGE OF DOMESTIC  
IMPORTS, FISCAL YEAR 1914**

Sugar (taxable) .....	3,225,000 tons
Coffee .....	440,000 tons
Iron ore .....	1,490,000 tons
Nickel ore .....	36,000 tons
Copper ore .....	445,000 tons
Sulphur ore .....	832,000 tons
Manganese ore .....	228,000 tons
Asphaltum .....	140,000 tons
Kainit .....	540,000 tons
Potash .....	285,000 tons
Manure salts .....	260,000 tons
Guano .....	22,000 tons

These figures illustrate the volume of the ocean traffic of today. So far as its weight is concerned, there are no statistics showing the growth of the foreign trade of the United States. It may be assumed that the relation of weight to value has remained almost the same, or that the increase of the value of exports relative to weight has been offset by a decrease in the case of imports. The following table, therefore, which gives the value of exports and

imports for the last fifty years, supplies an indication of the increasing weight of our foreign trade:

**FOREIGN TRADE OF THE UNITED STATES  
AND CANADA<sup>1</sup>**

(IN MILLIONS OF DOLLARS)

	<i>United States</i>		<i>Canada</i>	
	Exports	Imports	Exports	Imports
1850 . . . . .	144	173		
1860 . . . . .	334	354		
1870 . . . . .	393	436	74	75
1880 . . . . .	836	668	88	86
1890 . . . . .	742	789	97	122
1895 . . . . .	808	732	114	111
1900 . . . . .	1,395	850	192	190
1905 . . . . .	1,519	1,118	203	267
1910 . . . . .	1,745	1,557	301	392
1911 . . . . .	2,049	1,527	297	472
1912 . . . . .	2,204	1,653	315	559
1913 . . . . .	2,466	1,813	393	692
1914 . . . . .	2,365	1,894	479	651
1915 . . . . .	2,769	1,674	491	629
1916 . . . . .	4,334	2,198	883	565

<sup>1</sup> The corresponding figures for Canada have been added as illustrating the same point. The ten-fold increase in values since 1870 probably indicates a like increase in weight or bulk.

2. *Evolution of the freight service.*—We have seen that in the early days the merchant was his own ship-owner. As long as this condition prevailed no market for ship tonnage existed. The first beginnings of such a market are found in the earliest phases of the charter business. A merchant or a group of merchants would charter, i.e., lease a whole ship for one round voyage. Cargo lots were the unit of trade, while "berth cargo" or "part cargo" is an outgrowth of later developments. The earliest form of the

charter business employed the trip charter exclusively, as the uncertainty of wind conditions made the time charter appear too risky; and until the merchant system was superseded by the commission house system the trip charter remained the prevailing manner of chartering.

The growth of the size of the vessel made it appear more and more difficult for one party to assemble a full cargo. Furthermore, the growing variety of merchandise and the development of an increasing number of markets resulted in a growing number of part-cargo shipments calling for space. This traffic grew so rapidly that in Hamburg as early as 1800 part cargoes had become more frequent than whole ship loads.

3. *Berth traffic.*—The traffic in early times was too irregular for line service to exist. The boats that were rented or chartered to various shippers were merely "put on the berth." That means, a shipowner, with the aid of brokers who were in touch with the merchants, offered his ship for a particular voyage to all who wished to use it. Sometimes the brokers would take the initiative, and would themselves charter vessels for the purpose of putting them on the berth. While this was the customary method of shipping general merchandise during the time when line traffic was not yet developed, today a ship is only occasionally put on the berth. This occurs more frequently at the end of a route, where more freight has been received than is ready to be dispatched. A

freighter may also be employed in berth traffic in order to fight exorbitant liner rates.

4. *Line traffic.*—As the traffic in general merchandise grew in volume and regularity along definitely established trade routes, berth traffic gave way to regular line service which follows definite schedules. Vice versa, the organization of line services acted as a strong stimulus to the growth of the exchange of commodities. Today the liner has almost complete control over the movement of general merchandise, while bulk goods are the domain of the tramp. In the charter traffic the introduction of steam-power resulted in the emancipation of shipping from the uncertainty of weather conditions, and thereby brought about a change from the trip charter to the time charter.

5. *Modern charter market.*—This development has its center in a few ports near the North Sea basin. Here, in close vicinity, located in the great European ports, such as Le Havre and Liverpool, are the domiciles of the great shipping companies of the world. Great Britain and northwestern Europe attract numberless tramps which either seek this section of the world as the destination of their cargo or as the source of an outward cargo. The latter is hardly ever lacking because of an endless stream of British coal which flows to almost every corner of the globe. It is therefore not surprising that the entire charter trade is directed from central points located in this part of the world; particularly in London, Hamburg, and

Rotterdam. Tramps that come to New York for instance, do not ordinarily make their engagements here, but are chartered in one of these great charter markets of Europe. The centralization of the charter market of the world in a relatively small area is rendered possible by the development of all means of communication, particularly the telegraph and telephone. The gradual completion of the net of international cables and the instalment of wireless plants are the basis of the organization of the modern charter market, bringing a multitude of local establishments into one great international organization.

The overwhelming preponderance of Great Britain in the charter trade is due, first to the fact that its coal export furnishes the steadiest employment to tramps, secondly to the general superiority of Great Britain in the shipbuilding industry, and in the construction of tramps in particular, and thirdly to the fact that for generations British capital has been so freely lent to those who wish to build tramp steamers that even in times of depression the construction of tramps has hardly slackened. The resulting supply forms a chronic danger to the sound development of the world's freight market. In years of greatest depression large numbers of tramps lie idle awaiting only a slight increase of the freight rate in their eager search for cargo.

6. *Operation of charter business.*—The ingenious solution of the great world puzzle of bringing together more than twenty-four thousand tramp vessels scat-

tered over all oceans, en route to hundreds of ports in all climes, with the freight equally scattered, is admirably described by Professor R. J. Smith in the following way:

The method of securing cargoes for ships, and ships for cargoes, is best described by the relation of some common incidents of every day occurrence. A Liverpool shipowner had a steamer in the Mediterranean loaded with jute, which she was carrying from Calcutta to Dundee. The owner desired another cargo for the steamer at the end of the voyage. Knowing there was nothing in Dundee he wrote to his agent in Newcastle, and himself made inquiries among the shippers of Liverpool. The Newcastle man suggested a cargo of coal to Hamburg, but this the owner declined, and sought the aid of his correspondent in Dumbarton, but the iron trade of Dumbarton was not promising. Meanwhile, the days were passing, the vessel had reached Dundee and there was nothing provided for her. The Liverpool man was himself the correspondent of a London firm of shipbrokers who telegraphed him at this juncture that they had offers of a shipment of German coke to go from Rotterdam to Santa Rosalie, lower California, and of another of Cardiff coal for Buenos Aires. The first the shipowner declined as being only suitable for a sailing vessel, and because of news from across the Atlantic he allowed the second to go to a steamer then lying at Antwerp. Three days before this he had cabled to his New York correspondent a description of the steamer, and offering his services to carry grain to the United Kingdom at a certain rate and saying that she could load after a certain date or between certain dates. As New York freight was dull, the firm in that city telephoned their Boston and Philadelphia agencies. At the same time a Chicago grain exporter decided to export 150,000 bushels of corn, and telegraphed to his agents in New York and Philadelphia to secure offers of transportation. In the shipping exchanges of those cities the representatives

of the Chicago exporter and the Liverpool shipowner bargained face to face. Offers were, however, made at the same rate by the New York representative of the owner of a ship then off Rio Janeiro with a cargo of Chilean nitrate bound for New York, and also by a Philadelphia broker who sought future employment for a vessel then in the Red Sea with a cargo of Java sugar for Philadelphia. The wary broker held aloof for a few hours in the effort to beat down the rate. The Liverpool owner was informed of this competition, and still having nothing for his steamer he cabled that he would charter his ship for three pence (six cents) less per ton than he had offered, or for the same rate he would take freight to Continental ports as far as Copenhagen. He added to his cablegram the word "range," which means in cable code that he would send the ship to the Delaware bay with the understanding that she might be ordered to New York, Philadelphia, Baltimore, or Norfolk to load. This offer secured the freight, for the representatives of the sugar ship and the nitrate ship, having more time at their disposal, preferred to take chances rather than cut rates. The steamer which, pending negotiations, had proceeded to Newcastle, coaled and anchored, departed thence in ballast for the Delaware. Meanwhile, the Chicago exporter found that railroad conditions made Norfolk the most convenient port to which to deliver his corn at the appointed time. When the steamer reached the Delaware breakwater (just inside Cape Henlopen), the captain received telegraphic instructions to go to Norfolk. There he loaded a full cargo of corn and, as the final destination of the corn was still undecided, he sailed to the Channel port of Falmouth for orders. Upon being sighted there, he was instructed by signal to proceed to Copenhagen, where the corn was discharged and the vessel was ready for another contract which the agents had been trying to arrange since the day they learned of the final destination of the corn cargo.

*7. Port of destination.*—This is a typical operation in the charter business. As appears from the

example just given, the exact port of destination at which a vessel is to discharge her cargo need not be named in the charter party. Phrases such as "one safe port on the continent between Havre and Hamburg both inclusive" or "U. K. H. H. range" (meaning United Kingdom, Hamburg, and Havre) are commonly found. Cork, a port at the southwestern coast of Ireland, is frequently named in charter parties as the port at which a vessel is to call for orders announcing the final destination. The shipper wishes to delay his final decision as to the place of delivery of the cargo to the last possible moment to take advantage of market developments, especially price fluctuations. This practice of "calling at Cork for orders" corresponds to the practice of diversion and reconsignment in railroad transportation. The instalment of the wireless apparatus on tramp steamers will bring further development, for thereby the shipper will be kept in constant touch with his vessel.

The fact that the negotiations between shippers and shipowners' representatives are conducted in exchanges should not lead to the belief that tonnage has in any way become negotiable and can therefore be traded in generic terms without reference to a particular vessel. It is true that phrases such as "handy vessel," or "moderate-sized vessel" are found in charter parties, but they are invariably supplemented by particulars naming a specific vessel. The basis of negotiability is standardization, and while considerable progress has been made in standardizing charters and

in developing standard types of vessels, this process has by no means reached a negotiable point.

8. *Ship-brokers*.—In view of the complex nature of the charter party it is not surprising to find that almost all charter parties are carried out thru the office of a broker. The merchant or manufacturer who wishes to charter a vessel has no way of gauging the supply and demand of vessel tonnage. Here the middleman is indispensable. The brokers, being in constant touch with each other, as well as with shippers and shipowners, are in a position to exercise a steady and equalizing influence upon the formation of charter rates by publishing market conditions in private reports and in such papers as Lloyd's List and Shipping Gazette, Fairplay, and others. In some cases the broker has authority to act as agent for shipper or shipowner. He seldom is a shipowner himself.

9. *Charter parties*.—The terms "trip charter" and "time charter" explain themselves, but a few words should be said regarding the extent of their application. In the case of a trip charter, which may cover either a single or a round trip, the shipper usually agrees to pay a given sum per ton of cargo, or, in the case of grain, so much per bushel. If the vessel is chartered on time, i.e., for a period of three months or a year or more, the rate is usually based on the dead-weight capacity of the vessel. While under the trip charter the owner ordinarily pays for all expenses of operating the ship, including even port charges, under the time charter the owner pays the crew

and provides for food and maintenance and also keeps the ship in repair.

10. *Operation of line traffic.*—The handling of the charter traffic, because of the uniformity of cargoes, is simple when compared with the intricate system prevailing in the line business. In the line business each cargo consists of a multitude of shipments each of which represents a separate transaction. Usually, each shipment consists of various items which require different freight rates according to their value and volume. The rate sheets are issued by the steamship companies, covering certain articles, these rate sheets are not binding. They are merely "for information." The printed rates must be confirmed for each item shipped on a certain steamer. Even forwarding agents and commission houses doing a large and regular business have to make sure in each case what the rate will be.

Occasionally, large shippers who can calculate in advance the amount of space they will require for their shipments in a given direction during a certain period, will make time contracts specifying rates either directly with the carrier or with the freight forwarder. These contracts are usually made on the basis of the rates current at the time of the contract. The shipper prefers a steady rate on which to base his sales. The agent of the steamship company is willing to accept a lower rate if he can thus secure all of the shipper's business and avoid competition. But contracts of this nature are being more and more avoided by the

steamship companies. They claim that if the current rate goes up they lose, if it goes down the shipper "squeals."

11. *Seaboard brokers.*—In our discussion covering the methods employed in handling foreign shipments it was mentioned that a great many of these shipments, especially those originating in inland points, were carried out thru the medium of freight forwarders or seaboard brokers.

The seaboard broker's services are twofold in their nature. One part of their value consists in the saving of trouble arising from the multitude of details that have to be attended to when making foreign shipments; the other part results in a saving of freight on both the land and water carriage.

In the case of shipments to certain foreign destinations, primarily Europe, the railroads issue thru rail-and-ocean bills of lading and their foreign freight agents attend to the transfer of goods at the seaboard. In other cases the shipper, unless he has an expert organization of his own or sells abroad thru a commission house, employs a forwarder to handle his shipment at the seaboard.

12. *Cost of employing forwarding houses.*—Shipping thru a responsible forwarding house is not expensive when one considers the various duties performed by this party. He receives the consignment from the railroad, has it carted to the steamer, takes out insurance, attends to the certification before the foreign consul, ships the goods, and in some cases

renders additional service at the foreign end of the journey, such as handling the goods thru to the point of inland destination. In that case the forwarder's correspondent assumes the duties which would otherwise have to be performed by customs brokers. For these services the forwarder usually charges the consignee unless the seller chooses to assume the cost. The forwarding house usually ships in its own name to avoid the necessity of asking for power of attorney in making oath before the consul. The forwarder also attends to the collecting of the sellers' money. The seller draws on the forwarder, attaching to his draft the railroad bill of lading. The latter honors the draft, gets the goods, puts them aboard a ship, and draws on the foreign buyer for a sum equal to the seller's draft plus the value of the forwarder's service.

13. *Steamship agents.*—Besides the forwarders, the steamship agents are important in handling export freight. Almost all the great steamship lines plying to our ports are represented in the great inland centers whence much of the cargo originates. Thus, the International Mercantile Marine Company has a general western freight agent at Chicago, a northwestern agent at Minneapolis, and a southwestern agent at St. Louis. These representatives solicit freight for all direct services run by their companies, without favoring any single one of the ports touched by their lines.

14. *Transshipment.*—Steamship lines solicit not

only freight destined for points reached by their own vessels, but also goods which have to be transshipped in order to reach their destination. While almost all important seaports are reached by direct steamers from some port of the United States, certain ports can be more easily reached thru connecting services. This involves transshipment at the terminus of the direct line. Hamburg and Liverpool are great transshipment centers for trade with the outlying points of the world. Thus, in the Australian trade Liverpool successfully competes with direct steamers from American ports. The White Star Line, thru its American service, collects freight to be transshipped at Liverpool into boats belonging to her Australian service. It happens sometimes that it is even cheaper to send goods in this indirect way to Australia than by direct steamers plying to that country.

However, because of the danger of damage resulting from the extra handling and because of the time usually lost, transshipment should be avoided whenever possible. Destinations such as the Baltic ports or those in the Levant may be reached more expeditiously by transshipment at Liverpool or Hamburg. The advantages of this method are due to the infrequency of direct sailings from the United States to such ports.

Besides the groups discussed here, many others such as warehousemen and bankers should be added to give a complete picture of the organism which performs directly and indirectly the ocean freight service.

**REVIEW**

Describe the charter business and its methods of operation.

Where is the chief charter market for ships?

Describe the operations of the ship-broker, and of the seaport broker.

Explain the operations of the forwarding business. Who are the most important factors in it?

Why are goods transshipped in many cases instead of being sent directly to their destination?

## CHAPTER V

### OCEAN FREIGHT RATES

1. *Charter and liner rates.*—Just as the freight service of the ocean carrier is divided into two groups, i.e., charter traffic and line, the charges for these services are classified accordingly. As we have seen in the previous chapter, the methods of rate-making in the charter traffic differ materially from those employed in the line traffic. In the following paragraphs we shall discuss the general nature of ocean freight rates.

There are certain features common to all classes of rates charged in water-borne traffic. The first of these is the cheapness of water transportation as compared with transportation by land. It has been stated in New York shipping circles that the cost of transporting one ton of freight one mile by water averages only  $7/8$  of a mill, while by rail the cost averages 8.48 times as much, or 7.4 mills. It is a peculiar fact, that it costs less to ship coal from Cardiff to Port Said (3,072 miles) than from the South Wales coal district to London (170 miles). The freight charge on a shipment of men's shoes from New York to London (3,222 miles) is less than the charge for carrying this same freight from Chicago to New York (912 miles).

*2. Causes of low charges of water transportation.—*

This cheapness of water transportation is largely due to the fact that the water carrier has no expenditures for purchase, construction, or maintenance of roadbed. Technical improvements, especially in the construction of marine engines, and more efficient designing resulted in a general decrease of freight rates up to 1902, and in some cases up to 1908. If we keep in mind the fact that the service rendered by steamers has improved during the same period, the drop in ocean rates on inward voyages from an index number of 121.7 in 1884, to 66.6 in 1903 seems remarkable indeed. The decrease was less pronounced in the case of rates covering outward voyages, but the mean of these two classes of rates falling from 116.2 in 1884, to 72.8 in 1903, shows a decrease which is far in excess of the decline of the general price level during the same period. The following table gives a picture of this rate development compared with the changes in the wholesale prices of the most important commodities.

This table is the result of a most elaborate investigation by the British Board of Trade in 1904. The difficulty in arriving at a general ocean freight level is easily perceived if one remembers the great variety of articles comprised in ocean traffic and the large number of ocean routes. The above-mentioned investigation covered numerous articles imported into Great Britain from North America, southern Europe,

## OCEAN RATES OF FREIGHT, INWARD AND OUTWARD

Statement showing the percentage fluctuations in mean yearly freight rates between the United Kingdom and certain ports abroad during each of the years, 1884 to 1903, as compared with mean rates for the year 1900. The percentage fluctuations in wholesale prices of commodities are added for comparison. (1900 figure equals 100 per cent.)

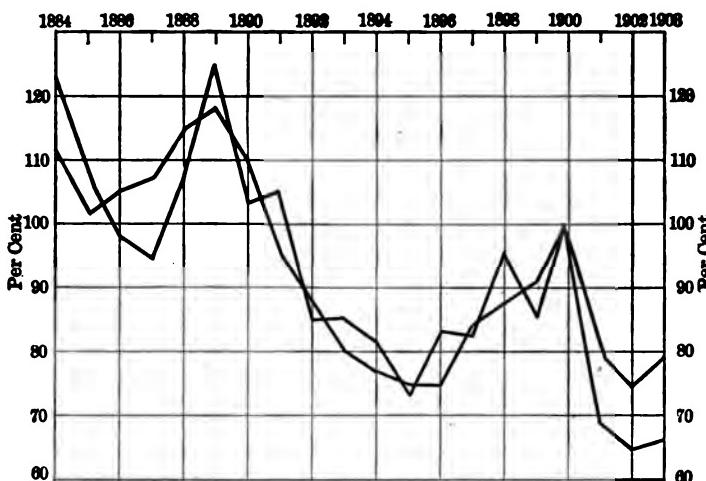
Year	OCEAN FREIGHT RATES		Mean of preceding columns.	Index Number of Wholesale Prices of Commodities. <sup>1</sup>
	Inward	Outward		
1884	121.7	110.7	116.2	106.1
1885	108.9	101.0	104.0	99.8
1886	98.0	105.0	101.5	94.4
1887	94.6	105.6	100.1	92.2
1888	107.3	114.0	110.7	95.3
1889	125.4	119.2	122.3	97.1
1890	102.8	110.5	106.7	99.5
1891	104.4	95.5	100.0	101.1
1892	84.3	89.3	86.8	96.3
1893	84.8	82.3	83.6	94.6
1894	81.2	78.8	79.8	90.8
1895	74.8	75.7	75.3	86.8
1896	82.8	76.0	79.4	88.9
1897	81.8	84.0	82.9	85.7
1898	96.5	88.9	92.7	88.5
1899	88.7	91.7	87.7	89.5
1900	100.0	100.0	100.0	100.0
1901	69.1	80.8	76.0	95.2
1902	65.2	76.1	70.7	94.7
1903	66.6	78.9	72.8	94.4

<sup>1</sup> See "Report on Wholesale and Retail Prices" (House of Commons Paper, No. 321, of 1903), p. 34. The figures have been converted to the basis of 1900 as the standard year.

the Indian Ocean and Australasia. Also commodities exported from Great Britain to Canada and the United States, the North Sea and Baltic countries, southern Europe, South America and Australasia. The chart on page 256 will help to clarify the result of these investigations:

Quite apart from the effect of the European war

CHART SHOWING THE PERCENTAGE FLUCTUATIONS IN MEAN YEARLY FREIGHT RATES IN CERTAIN TRADES AND VOYAGES. (1900 FIGURE EQUALS 100 PER CENT.)

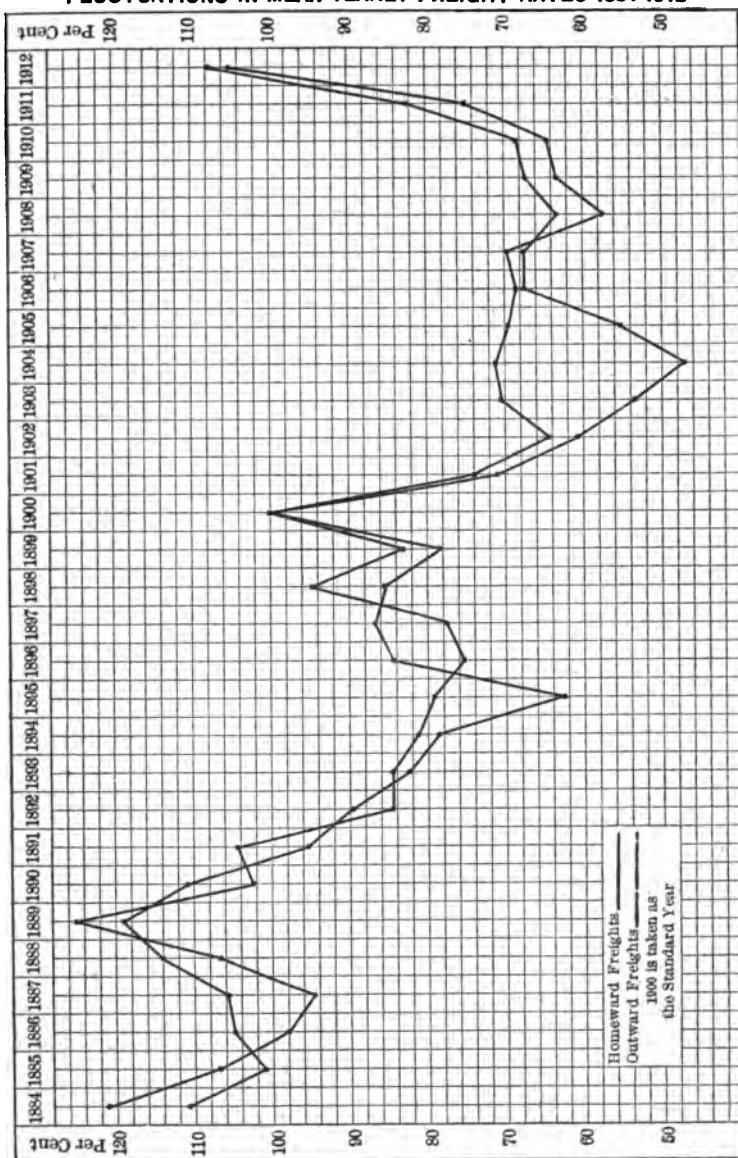


upon freight rates, there was before the war such a rise in the general level of ocean rates that little of the cheapening has remained permanent. This is evident from the chart opposite, taken from appendix 16 of "British Shipping, its History, Organization and Importance," by Kirkcaldy.

These figures refer to British freight rates only, but this does not lessen their value as illustrations of the universal rate level, because of the dominant position which Great Britain holds in the carrying trade of the world, and also because Great Britain draws her supplies from practically every corner of the globe.

3. *Rate fluctuation.*—These charts, representing

**FLUCTUATIONS IN MEAN YEARLY FREIGHT RATES 1884-1912**



Note:-During the year 1913, mean homeward freights dropped to 89. Mean outward freights dropped to 91.

as they do general means, reflect only imperfectly the wide range of fluctuations which are the second characteristic of ocean rates to be discussed. The general freight level shows only the effect of great events such as the British Engineers' strike of 1897, the Spanish-American war, the South African war, and so forth. The high rates of 1898-9 set shipbuilding yards feverishly busy. In 1900, the new tonnage flooded the market and its effect was accentuated by the release of ships chartered by the British government in the Boer war. Hence the depression after 1900. The large increase in freight rates since 1908, particularly since 1911, is due to various strikes such as the British coal strike of 1911, to the closure of the Dardanelles during the Balkan wars with its effect upon insurance rates, and particularly to the abstention on the part of British shipbuilders during the preceding period of depression.

*4. Conditions affecting rates.*—The nature of the charter traffic causes the rates to fluctuate more widely than line rates. Sometimes within a week or two the charter rates in a given direction will rise three hundred per cent. This extraordinary degree of fluctuation is due to the fact that charter rates depend more intimately upon supply and demand than perhaps any other prices that can be named. If a shipper is bound by contract to ship a certain cargo at a certain date, only the ships that happen to be at hand at that time are available; all other ships, even those that are only

a relatively short distance away, do not exist as a possible supply. This relation between the urgency of making a shipment and the impossibility of adjusting the supply of vessel tonnage with sufficient promptness to the existing demands makes the charter rate a marginal rate. That is to say, if the amount of freight calling for shipment exceeds the amount of vessel tonnage offered, this excess freight, representing the margin, cannot be shipped at all. It is, therefore, the fear of the shipper of being left altogether without shipping facilities that enables the carrier to charge a rate far in excess of that which might have prevailed only a few days earlier, in the same locality, when the relation between the freight and space was a different one.

Just as the urgent demand of the shipper for space at a given time drives freight rates to abnormal heights, so the opposite is the case when a steamer is embarrassed for a cargo. Here the limitations placed on the cheapness of water transportation manifest themselves. The boat must be filled, the operating costs being the same whether ten or ten thousand tons are carried. When, therefore, a steamer has been disappointed in its expectation of filling up, it will take freight for extremely low rates rather than go out half empty. It is then said that the boat offers "distress room." Such cases occur frequently in the regular line business, but are even more common in berth traffic. A carrier in his anxiety to fill space left

vacant by belated interior freight, negotiates for "spot cargo," and the shipper, taking advantage of the carrier's anxiety, squeezes out a low rate.

*5. Rate basis not cost of operation.*—It seems natural that the charges made by those engaged in a highly competitive business cannot be based primarily upon the cost of the service rendered. Therefore, in shipping, the freight charges are only secondarily influenced by the cost of operation, the distance covered and the time consumed in a given voyage. Sometimes freight will be carried at a rate that does not more than cover the operating expenses. In other cases the charges exacted from the trade may seem exorbitant, the carrier being able to charge "all the traffic will bear."

The distance covered plays a relatively unimportant part in the calculations of freight rates; of charter rates in particular. The same charges prevail to ports which are hundreds of miles apart. We have referred in a previous chapter to the so-called "range" clauses attached to charter parties, which mean that the same freight rates are paid by the shipper whether the vessel proceeds to Le Havre or Hamburg, when bound for Europe; or to any port between Baltimore and Boston, when destined for America. The distance from Hamburg to Le Havre is 415 miles. Such a distance means little when compared with such figures as:

Hamburg to Buenos Aires .....	6,630 miles
Hamburg to San Francisco .....	14,080 miles

Hamburg to Cape Town .....	6,495 miles
Hamburg to Bombay .....	6,640 miles
Hamburg to Yokohama .....	11,710 miles
Hamburg to Sydney .....	12,260 miles

But even the 2,625 miles between Hamburg and Naples do not hinder the mail steamers from charging the same rates on general cargo to Bombay, whether the shipment originates at the mouth of the Elbe or in the south of Italy. Nor does it make any difference whether the shipment is destined to Suez, or to Singapore, 5,000 miles farther. Mr. Lawrence K. Sherman, Vice-President of W. R. Grace and Company, described the situation well when he said:

Ocean rates are not a question of cost and distance. They are a question of competitive conditions. The field is wide open and you have to make rates that will get the business.

6. *Knot time.*—Generally speaking, the time consumed on a given voyage depends upon the distance covered. Occasionally, however, other factors, such as the lower speed required while passing thru a canal, or thru narrow or shallow waterways, or calls at intermediate ports have a bearing upon the time taken up in covering a given distance. That the time consumed is a relatively small item in rate calculations appears from the following statement of Professor E. R. Johnson before the Senate Committee on Interoceanic Canals:

I found that for a freight steamer of  $9\frac{1}{2}$  to 10 knots' speed, which is the speed at which most freight steamers are

run, the vessel owner or operator is 10 cents per net registered ton per day better off for every day's reduction in the time of the voyage.

So, in the case of a 2,000 ton steamer of this description the saving of one day, or of about 220 miles, would amount to but \$200, a relatively small item when compared with the total cost of operating the vessel.

Of course, in the case of high-class passenger vessels, representing a capital investment of millions—some of the latest boats cost as much as \$8,000,000—the time factor becomes much more important; every day eating up large sums in interest and amortization. In the case of these boats every possible effort is made to reduce to a minimum the time of port stays.

7. *Competition.*—Operating costs, which are only a secondary consideration in the case of tramp steamers, enter even less into the question of establishing the basis for line rates. R. P. Schwerin, formerly Vice-President and Manager of the Pacific Mail Steamship Company, was most emphatic in his statement before the Senate Committee, referred to above, that "a liner has to exclude all operating expenses in its passenger and freight rates" and that "operating expenses do not affect the charges of the steamship company at all." "At the end of your voyage you simply figure your earnings and expenses and this will show whether you come out ahead or behind." The expensive steamer often competes with the cheap one, but cannot charge more for equal service if it wishes to get the freight.

A good example is the traffic in the Pacific ocean. Here expensive American steamers compete with Japanese steamers which, besides being often more cheaply built and invariably more cheaply operated, are subsidized by the Japanese government. That government in turn assumes the right to regulate all inward and outward rates on the products of Japan. It regulates the sailing dates and routes of subsidized boats and the rates which these boats may charge for export and import cargo, being guided mainly by the desire to build up the foreign trade of that country. All other boats which compete with these Japanese lines have to adjust their rate charges to the standard set by the Japanese government. Thus, the factor of competition wholly overshadows any regard for operating expenses in the determination of rates. Naturally, the desire to come out ahead being the prime consideration in the steamship business, as in all business, the general average of rates charged can not for any length of time fall below the minimum set by the operating expenses; but in the individual case other factors are of more importance in the setting of rates.

8. *Load factors.*—In its effect upon the rate level, the load factor is almost as important as competition. The question whether a vessel can secure a full load both ways of a voyage is one which affects rates very much more than time or distance. A vessel will operate at maximum efficiency and at the lowest cost per unit of cargo if it can secure a full cargo each way

on every trip. The load factor may fall short of this ideal in two general ways; there may be enough freight in one direction to furnish full loads, but not enough in the opposite direction to furnish more than partial loads, or the freight may be offered so irregularly in either direction or in both directions that the loads vary thruout the season. The latter condition will affect liners more than tramps, as the latter vessels can always leave a "trade" as soon as it ceases to furnish paying employment.

*9. British coal exports and world charter rate.*— Almost the entire British foreign trade in coal, apart from that portion which moves to adjacent Continental ports, must be viewed in place of ballast as a return freight proposition. If it were not for the British coal exports the tonnage balance of northwestern Europe would be a passive one; i.e., the amount of imports going to northwestern Europe would far exceed the amount of the exports. This discrepancy would be even greater, for the reason that the different nature of the exports and imports calls primarily for line tonnage outward and for tramps to carry imports. The British coal exports, changing this passive tonnage balance into an active one, solve the problem admirably. The hundreds of tramps which are employed bringing grain, nitrate, ore and other bulky commodities to London, Rotterdam, Hamburg and many other ports in that part of the world would have to go out empty if it were not for the British,

and in recent years to a very much smaller extent, for the German export of coal.

As it is, the steamer which has just discharged a cargo of Indian jute at Hamburg, and which has been engaged to call for a cargo of Argentine wheat at Rosario, can always rely on an outward cargo of British coal. The coal is carried as a ballast cargo. The transportation of coal is therefore largely a mere side issue of the shipping business. This is clearly reflected in the freight rates charged for the carriage of coal. The grain exports of Argentine may again serve as an illustration. During summer months in the North, when grain shipments from the southern hemisphere are dull, the rate on coal from Cardiff to Buenos Aires is fairly high. But as the harvest proceeds, and Argentine grain shipments grow in volume the coal rate will drop almost as much as the grain rate will rise. The following table serves to illustrate this. It covers only that half of the year when grain shipments from Argentine are relatively small. When the season is in full swing, ships from all parts of the globe flock to Argentine, so that the reflex action of the coal and grain trade on each other does not then appear so evident.

10. *United States coal exports.*—It has been suggested that this country should imitate the example of England in building up a coal export trade which reaches almost every corner of the earth. Before the House Committee on Merchant Marine and Fisheries,

## SHIPPING

Date	Wheat Freight La Plata to Europe		Coal Freight Cardiff to La Plata		Date	Wheat Freight La Plata to Europe		Coal Freight Cardiff to La Plata			
July	1910	s.	d.	s.	d.	October	s.	d.	s.	d.	
	8	18	6	18	8		2	16	6	10	6
	10	11	6	12	10½		9	16	6	10	6
	17	10	6	18	9		16	16	—	10	—
	24	9	6	18	6		23	17	—	10	—
	31	7	—	—	—		30	16	6	9	6
	August	7	10	6	—		6	15	—	9	—
	14	13	—	12	6		13	15	—	8	—
	21	15	—	12	—		20	17	—	8	3
	28	17	—	12	—		27	17	6	7	1
September	4	18	—	11	—	December	4	17	6	8	—
	11	16	6	11	—		11	18	—	8	—
	18	16	6	11	—		18	18	6	7	6
	25	16	6	10	6		—	—	—	—	—

<sup>1</sup> "Die britische Kohlenans fuhr" Essen 1911, Erich W. Zimmerman.

during the recent hearings concerning the creation of a shipping board, a proposal was made for the development of American coal exports to the Argentines. At once the difficulty presented itself that little or no freight could be taken back. Meat from La Plata can not use the same boats that carry coal. It requires better quarters. Coal could be carried in the boats bringing hides, wool and corn, but south-bound these boats are already more than filled with general cargo from the United States. With this in view, a triangular voyage was suggested; American coal to Argentine, Argentine grain to England and—here was the difficulty—in ballast from England back to the United States. Perhaps in the future this country will have to supplement its own wheat production by imports from younger countries like Argentine.

11. *Triangular voyages.*—The discrepancy in the volume of commodities moving over the same route

but in opposite directions, as illustrated by the figures given above to show the relative weight of exports and imports of the United States, often makes it necessary to arrange so-called triangular voyages. The ships of the United States Steel Products Company, already described, installed in the Vancouver service, take as a return cargo lumber or copper matte for Dunkirk, France, and in France they take on chalk for New York. This triangular voyage occupies from seven to eight months.

12. *Mixed cargo as a rate-making factor.*—An important consideration which affects the rate policy of a steamship line is the desire to secure a load which uses the ship's space with maximum economy. We have seen that a mixed cargo is better than a homogeneous one. Among the manifold classes of general freight are some which "weigh more than they measure," others which "measure more than they weigh." The steamship line wishes to have a certain proportion of these two classes so as to be able to fill the ship economically. It uses its rate policy to bring about this effect. R. P. Schwerin, in his testimony before the Senate Committee on Interoceanic Canals, referred to this when he said:

Naturally we would go after the package or best paying class of freight first and establish a service of volume and regularity that would take care of all the freight offering; we would hold up our rates as high as consistent with the filling of our ships with the class of cargo that we wanted and at times reduce it to induce movement of tonnage in case there was a shortage. If too much freight were offer-

ing we might raise the rate on iron in order to take a larger portion of general merchandise. If general merchandise were not offering we might lower the rate on iron to fill the ship. This is the general policy pursued.

The following table prepared by H. A. Boas of the New York office of the Hamburg-American Line, illustrates how to fill a vessel with two classes of cargo so that she is full and down to her marks:

Vessel 5,000 tons freight-carrying capacity;  
275,000 cubic ft. freight-carrying capacity.

To fill with copper measuring 9 cubic feet to the ton and lumber measuring on an average 100 cubic feet to the ton.

Let X equal weight of copper

Let Y equal weight of lumber

X plus Y equals 5,000

9X plus 100Y equals 275,000

9X plus 9Y equals 45,000

9X equals 45,000—9Y

45,000—9Y plus 100Y equals 175,000

91Y equals 230,000

Y equals 2,527.5

X equals 2,472.5

2,472.5 tons of copper equals 22,152.5 cubic feet

2,527.5 tons of lumber equals 252,750. cubic feet

274,902.5 cubic feet

275,000 equals total frt. room

**13. Rate quotations.**—As the variety of commodities carried by steamships grew, it became desirable to improve the original and unscientific methods of quoting rates for each single article.

A number of causes have led to this change; one of them was the competition of railroad-owned steam-

ship lines, which naturally applied the scientific rate-making practiced in their land service water-borne traffic. Another cause was the increase in competition among shipping companies, who vied with each other to conquer the rich transatlantic trade with this country. This struggle led them to quote their rates in a manner familiar to, and therefore more easily understood by the American public.

However, as yet the classifications that have been introduced are rather broad and imperfect. No uniformity exists as yet. Such tariffs as exist in the New York trade, governing shipments to Europe, South Africa, Australia, New Zealand, China, Japan and the Orient generally, or to Brazil and the River Plata, "are jealously kept back of the counters of the steamship companies." It is a question whether the present chaos will ever be replaced by as complete a system as governs railroad traffic, but surely great improvements may be hoped for in the future.

14. *Effect of tramps on line rates.*—Tramps affect line rates in a twofold way, as there are two points where their services meet. One case is when the liner, in order to fill space, carries bulk goods such as grain and ore, which are the natural tramp cargoes. The other case is the reverse and arises when the tramp is "put on the berth" to compete with line space for general merchandise. This effect is lessened by the method of granting deferred rebates, by which lines tie the shipper permanently to themselves. This will be discussed later. This is illustrated by the agree-

ments which the railroads serving the ports of the Atlantic seaboard have with the steamship lines. New York and New Orleans are free from such railroad agreements, and therefore in them the competition of the tramp and the liner is stronger.

One of the most vital questions in regard to rate-making is the difficult task of determining what constitutes a "reasonable rate." This involves, according to Professor S. S. Huebner, a study of:

- (a) The factors that influence the rise and fall of the general level of rates.
- (b) The difference in the nature of the service rendered by liners and tramps.
- (c) The character of the vessel and the expensiveness of operating the same.
- (d) The stability of rates over a long period of time, charter rates fluctuating much more violently.
- (e) The different conditions surrounding each trade route as regards the nature of the service, the quantity of the cargo, and the opportunity for effecting combination cargoes.
- (f) What constitutes a fair profit to the line, all factors considered.

**15. Rates and the European war.**—The effect of the European war on ocean rates offers a most interesting study in so far as it illustrates, as no event of past history ever did, the extent to which rates are influenced by the law of supply and demand. But after all, the conditions which now are completely thrown out of their usual order into a state of chaos will return to a normal state of affairs, proving the temporary nature of the present situation. And we

OCEAN FREIGHT RATES BEFORE AND DURING THE EUROPEAN WAR

		Grain per bushel						Sack flour per 100 lbs.						Provisions per 100 lbs.			
		London	Liverpool	Rotterdam	Havre	London	Liverpool	Rotterdam	Havre	London	Liverpool	Rotterdam	Havre	London	Liverpool	Rotterdam	Havre
1914	Jan.	3	4.6	4.1	5.3	8.4	15.0	14.0	13.0	22.5	24.4	21.7	28.0	30.0	30.0	30.0	30.0
	Feb.	7	4.1	4.1	4.0	7.6	13.0	12.0	12.0	22.5	24.4	21.7	28.0	30.0	30.0	30.0	30.0
	Mar.	7	4.1	3.0	4.0	7.2	13.0	12.0	12.0	22.5	24.4	21.7	28.0	30.0	30.0	30.0	30.0
	Apr.	11	3.5	2.5	3.5	6.5	12.0	11.0	11.0	18.0	24.4	21.7	28.0	30.0	30.0	30.0	30.0
	May	2	3.5	2.5	3.5	6.5	11.0	10.0	10.0	18.0	24.4	21.7	28.0	30.0	30.0	30.0	30.0
	June	6	3.0	3.0	3.3	6.1	11.0	10.0	10.0	18.0	24.4	21.7	28.0	30.0	30.0	30.0	30.0
	July	8	3.5	5.1	3.5	6.1	13.0	12.0	10.0	18.0	24.4	21.7	28.0	30.0	30.0	30.0	30.0
	Aug.	1	5.1	5.1	6.0	7.6	13.0	12.0	11.0	18.0	24.4	21.7	28.0	30.0	30.0	30.0	30.0
	Sept.	5	6.6	6.1	7.6	21.0	20.0	20.0	30.0	24.4	21.7	28.0	30.0	30.0	30.0	30.0	30.0
	Oct.	3	7.1	7.1	11.0	8.4	22.0	21.0	25.0	25.0	22.6	22.6	32.6	38.0	40.0	40.0	40.0
	Nov.	7	13.2	12.2	12.2	25.0	24.0	27.0	36.0	32.6	32.6	32.6	38.0	40.0	40.0	40.0	40.0
	Dec.	6	15.2	14.2	27.4	27.0	29.0	40.0	42.0	32.6	32.6	32.6	38.0	40.0	40.0	40.0	40.0
1915	Jan.	2	18.3	18.3	18.3	40.0	40.0	45.0	47.0	38.0	38.0	60.0	60.0	60.0	60.0	60.0	60.0
	Feb.	6	22.3	21.3	21.3	40.0	40.0	60.0	75.0	45.9	45.9	125.0	125.0	125.0	125.0	125.0	125.0
	Mar.	6	24.3	24.3	24.3	40.0	40.0	70.0	63.0	65.2	65.2	125.0	125.0	125.0	125.0	125.0	125.0
	Apr.	3	24.3	24.3	24.3	45.0	45.0	80.0	63.0	65.2	65.2	175.0	175.0	175.0	175.0	175.0	175.0
	May	1	22.3	22.3	22.3	45.0	40.0	80.0	68.0	65.2	65.2	125.0	125.0	125.0	125.0	125.0	125.0
	June	5	24.3	24.3	24.3	50.0	45.0	65.0	50.0	65.2	65.2	100.0	100.0	100.0	100.0	100.0	100.0
	July	2	21.3	21.3	21.3	45.0	40.0	60.0	60.0	65.2	65.2	125.0	125.0	125.0	125.0	125.0	125.0
	Aug.	7	20.3	20.3	33.5	45.0	45.0	60.0	65.0	65.2	65.2	80.0	80.0	80.0	80.0	80.0	80.0
	Sept.	4	24.3	24.3	36.5	50.0	45.0	60.0	65.0	65.2	65.2	110.0	110.0	110.0	110.0	110.0	110.0
	Oct.	2	36.5	36.5	95.0	65.0	65.0	65.0	80.0	80.0	80.0	125.0	125.0	125.0	125.0	125.0	125.0
	Nov.	5	40.6	40.6	37.5	75.0	70.0	70.0	100.0	90.0	90.0	125.0	125.0	125.0	125.0	125.0	125.0
	Dec.	4	38.5	38.6	37.0	80.0	75.0	100.0	100.0	90.0	90.0	150.0	150.0	150.0	150.0	150.0	150.0
1916	Jan.	8	40.6	40.6	90.0	85.0	100.0	120.0	125.0	125.0	175.0	200.0	200.0	200.0	200.0	200.0	200.0
	Feb.	5	44.6	44.6	90.0	90.0	110.0	135.0	125.0	125.0	175.0	200.0	200.0	200.0	200.0	200.0	200.0
	Mar.	4	50.7	50.7	100.0	100.0	140.0	150.0	155.0	155.0	175.0	200.0	200.0	200.0	200.0	200.0	200.0

are here concerned not with temporary conditions, but with the underlying principles, the great laws that govern shipping in normal times.

However, in order to illustrate the effect of the war on ocean freight rates, the table on page 271 is presented.

#### REVIEW

Describe the low rates for ocean freight and the differences between charter rates and line rates.

What have been the main directions in the rate changes of recent years?

What causes temporary changes in rates at any given time and place?

What is the general basis of freight rates?

How does the character of the cargo in the opposite directions affect the rates?

Why are triangular voyages made?

Describe how the most desirable proportions of cargoes of different merchandise are obtained.

## CHAPTER VI

### STEAMSHIP AGREEMENTS

1. *Regulated versus wild competition.*—It has already been shown that the freedom of the seas is the fundamental factor controlling and determining ocean rates. Statements such as that of Mr. Rufus Hardy before the Committee on the Merchant Marine and Fisheries, that “the day of competition on the ocean is gone, that combinations had taken its place, that all laws against combinations are futile in that respect, and that the time had now come to recognize combination and regulate it,” should be taken with a grain of salt. It will be shown that many agreements do exist between former rivals, and that in rare cases competition has actually been replaced by combination. But it is also true that competition in rate-making has been replaced by competition in service, and that as yet no combination has been found strong enough to overcome the force of competition innate in the nature of shipping. The slogan is not “combination versus competition,” but “regulated, versus wild competition.”

2. *Government investigations.*—Careful investigations carried on by the governments of both this coun-

try and Great Britain have revealed the nature and the scope of almost all existing shipping rings, conferences, pools and other agreements. In the United States the investigation of shipping combinations, carried on in 1913 by the House Committee on the Merchant Marine and Fisheries, showed that the advantages of shipping combinations are greater than their drawbacks. It was found that, contrary to popular belief, shipping combinations were not confined to American trade, but were universal in their nature. Nor is their aim necessarily directed against the interests of the United States. In an address to the National Foreign Trade Convention at Washington, June 13, 1914, Mr. P. A. S. Franklin of the International Mercantile Marine Company, said:

A fallacy which I should like to expose here is the contention that the foreign lines are seeking to throttle American export trade. On the contrary, I am confident the foreign lines are doing everything possible to encourage our trade, which it is, of course, to their best interest to do, even to the apparent detriment of the merchants of the foreign country to which the steamers happen to belong, as the ship-owner has to be supported by, and make a living out of, his particular trade. If rates should be unduly advanced, the foreign buyer, who pays the freight, would decline to purchase our products. The safety valve against the charging of exorbitant freight rates is in reality the lines' own interest to do everything in their power to foster trade, and to do nothing which would have a tendency to restrain it.

*3. Tramp vessel combinations.*—The government investigations referred to above brought out with striking clearness the fact that no combination of last-

ing influence and large scope can exist among tramp vessels. To organize the numberless tramps whose ownership is scattered among hundreds of individuals and companies, is an impossibility. Tramps are quickly built. A broker will soon find cargoes and, by slightly cutting the rate, the new competition will secure abundant and profitable employment; leaving idle the boats which, bound by their agreement, must charge the higher rate.

It is not lack of experience in cooperation which stands in the way of successfully bringing together owners of charter vessels. Many associations formed to protect their mutual interest manifest their willingness to cooperate and show their possession of the necessary *esprit de corps*. But every attempt to control charter rates has proved futile, in spite of the strong feeling of solidarity which prevails among large groups of tramp owners.

4. *Examples of charter vessel combinations.*—Several attempts have been made at such rate control. Whenever a serious depression befalls the shipping industry, the desire to raise the rate level to a profitable height by concerted action is naturally strong. Thus, the formation of the "Sailing Ship Owners' International Union," with headquarters at London, was largely a result of the slump in the general rate level which occurred after the extraordinary boom caused by the Boer war. A secondary factor was the large subsidies which the French government, unlike other governments, was granting to the sailing ship owners

of that country. The union was organized in 1904, and in 1905 the tonnage interest covered by the union's agreement represented as much as 87 per cent of the British, French and German sailing tonnage. Yet in spite of this large membership, the work of the union met with but little success.

The scope of the union was limited (1) to minimum rates; (2) to certain long voyages; (3) to voyages homeward to Europe only; (4) to vessels of certain size only; (5) to sailing vessels only"; i.e., to vessels which today do probably no more than five per cent of the work of ocean transportation.

Still more restricted in the scope of its activities is the "Baltic and White Sea Conference" which was organized in 1905 in Copenhagen. It does not attempt any rate control whatsoever, but confines itself completely to matters pertaining to uniform charter parties and standardization of measures.

The two examples given are the most conspicuous efforts of cooperation among tramp owners, and even they serve to illustrate the impossibility of efficient tramp organization, rather than the reverse. How this large and uncontrollable element of charter vessels reacts upon the line traffic, was set forth in the foregoing chapter. It represents a constant menace to, and limitation of, any great controlling agreement and conference of lines.

5. *Liner cooperation.*—There are many reasons which render rate control and intensive cooperation among lines easier and more practicable than like

attempts in the charter traffic. The line represents a much larger unit than the tramp vessel; this means that the cost of duplication is greater. High-class liners offer fast service and passenger accommodations; for this business tramps cannot come in and compete. The line traffic, furthermore, shows a greater concentration of ownership; the smaller the group of men which controls a certain trade, the more easily can this trade be efficiently organized. Another important consideration arises from the fact that the tramp which has demoralized freight rates in a given trade, thanks to its freedom from route restriction, can escape punishment by fleeing the scene of action, while the liner "must stay in the water it has troubled, and suffer the consequences of its deed."

Rate cutting in the liner traffic in most cases leads to costly rate wars in which both sides lose heavily. The privacy of the individual negotiation which fixes the charter rate, as opposed to the publicity ruling among liners, makes rate cutting easier for the tramp. But while it is thus evident that agreements among liners are more easily made than in the charter traffic, it would be wrong to underestimate the difficulties confronting those who organize steamship line agreements. The limitations resulting from these difficulties lie more in the scope of activity of and the degree of control exercised by individual conferences, than in the number of existing agreements.

6. *Agreements in United States trade.*—The report published by the United States House Commit-

tee on the Merchant Marine and Fisheries (February 1914), shows that it is the almost universal practice for steamship lines engaging in the American foreign trade to operate both on the inbound and outbound voyages under the terms of written agreements, conference arrangements, or gentlemen's understandings. This principal purpose is the regulation of competition thru either (1) the fixing or regulation of rates; (2) the apportionment of traffic by allotting the ports of sailing, restricting the number of sailings, or limiting the volume which certain lines may carry; (3) the pooling of earnings from all or a portion of the traffic; or (4) meeting the competition of non-conference lines. It was found that eighty such agreements or understandings, involving practically all the regular steamship lines operating on nearly every American or foreign trade route, were in existence. It would be wrong, however, to assume that in the case of the foreign trade of this country agreements are more numerous or more noticeable than in other parts of the world. As a matter of fact, long voyages furnish a better field than the transatlantic trade for the establishment of rate-controlling combinations. Long voyage trades are usually more expensive and require less frequent sailings, thereby reducing the number of participants in the service. So it is only natural to find shipping trusts, rings and conferences more firmly established, and in larger numbers, in the trade with the Antipodes than in the transatlantic traffic.

**9. Important ship combinations in United States.**—The following are the most important combinations of ocean carriers operating to and from ports in the United States, whose existence was revealed by evidence produced before the Committee referred to above:

- (1) The North Atlantic Freight Association, composed of the Allan Line, American Line, Anchor Line, Canadian Pacific-Atlantic Coast Lines, Cunard Line, Dominion Line, Donaldson Line, Canadian Northern (Royal Line), and the White Star Line;
- (2) Agreements as to North Atlantic passenger traffic include, in addition to the lines just named, the Hamburg American Line, the North German Lloyd, and the Red Star Line;
- (3) The Baltic Pool, composed of the Wilson Line, the Hamburg American Line, the North German Lloyd, and the Scandinavian-American line.

The trade between the United States and India is controlled largely by a conference between the Hansa Line and the American-Indian Line. The Japanese conference included the Pacific Mail, the Canadian Pacific Line, the China Mutual, the Great Northern, the Bank Line, the Ocean Steamship company, and three Japanese lines,—the Nippon, Yusen Kaisha, the Osaka Shosen Kaisha, and the Toyo Kisen Kaisha.

**8. South American trade.**—The trade with South America is controlled largely by two conferences managing the lines plying to ports of the east Coast; the American Brazilian Conference, and that covering the River Plata service. The former includes the

Prince, the Lamport and Holt, the Hamburg-American Line and the Hamburg-South American Company. The latter consists of the Prince, Lamport and Holt, the Houston, the Barber, and the American-Rio Plata lines. The west coast of South America is not controlled by a conference; however, rates in that trade are maintained, altho no definite agreement exists.

The Royal Mail, the Hamburg-American, Atlas, and the Royal Dutch West India Mail, operate the trade with Jamaica under an agreement to which the United Fruit Company tacitly adheres.

In the trade of the Caribbean Sea, the Royal Mail Steam Packet Company and the Hamburg-American Atlas Line have a pooling arrangement both as to freight and passengers, while the United Fruit Company, tho not a party to the agreement, maintains the other companies' rates, as does the Government's Panama Steamship Line so far as trade with the Isthmus is concerned.

An agreement between the Union-Castle, Bucknall, Clan, Hansa, Houston, and Prince Lines, governs the business between New York and South America. Finally, the Australian trade is carried on by agreement between the United Tyser, American and Australasian, United States and Australasian, and White Star Lines.

9. *Conferences and pools.*—The combinations existing between shipping lines may be divided into two distinct groups; conferences and pools. Of these the pool is the higher form of development. While a

conference can exist without a pool, a pool cannot exist without a conference. A conference may be merely a "gentlemen's agreement" calling only for occasional meetings of the interested managers, to discuss questions of administration, forms of bills of lading, methods of receiving and delivering cargo, etc. In other cases, however, the agreement is based upon a firmly binding contract, which is executed in writing, signed and sealed, "visiting severe penalties on any of the heavily bonded signers who may violate its terms."

The pool is merely a corollary of the conference. Pooling, when applied to steamship lines, involves the payment of some part of the freight or passage money into a common fund. This fund is later divided among the partners, according to a scale agreed upon. The pool does not necessarily kill the desire of the member line to carry as large a portion of a given trade as possible, but it usually obviates the scramble for a most favorable position, which often leads to irregularity as to sailing dates, ports of call, etc. Should a pool member not carry his share of the joint tonnage without aid, he would have his quota of the earnings of the pool reduced.

10. *Administration of pools.*—The form and administration of pools differ materially according to the various kinds of trades. In its simplest form the pool has to do with merely one, two or several articles of the cargo carried. In its more elaborate forms the pool not only divides the money received for the

carriage of freight or passengers, but also the traffic itself, so that a reasonable relation is brought about between pooled earnings and service performed. Under such circumstances the pool works with considerable fairness especially when the cost of operating the individual steamer is also taken into consideration.

11. *Immigrant traffic pools.*—The most powerful pools were those established in the transatlantic immigrant traffic. This is the most desirable portion of the trade between America and Europe. Here the North German Lloyd and the Hamburg-American Line, for instance, divided the steerage traffic into almost equal portions, the North German Lloyd receiving 53 per cent and the Hamburg-American Line 47 per cent of the total handled by the two lines. By so-called "control stations" the Russian and Austrian borders are effectively controlled and the immigrant traffic is segregated in groups for Bremen and Hamburg in accordance with the pool agreement. Other pools involve freight earnings, and still others cover cabin and steerage traffic.

12. *Conference advantages to shippers.*—The advantages and disadvantages of steamship conferences, as seen from the viewpoint of both the ship-owner and the shipper, have been carefully analyzed by the expert adviser of the United States House Committee on the Merchant Marine and Fisheries, Professor S. S. Huebner. We shall give here merely a short summary of Professor Huebner's statement:

Agreements are said to have resulted in improving the service rendered by the steamship lines. These improvements consist mainly in greater regularity and increased number of sailings and in the instalment of faster and safer vessels. Greater regularity brings to the shipper several advantages; he needs less stock, does not have to engage cargo space long in advance and can enter forward contracts for the delivery of his goods at a definite date. The greater speed and safety of the vessels bring lower insurance rates and reduce the loss of interest on the cargo while in transit.

Stability of rates over long periods of time is the next favorable result of steamship conferences. The speculative risk which exists under the system of open competition is eliminated. It enables the shipper and merchant to calculate to a nicety this element of cost. Three factors assure the shipper reasonable rates: (a) Lines can not afford to charge rates detrimental to the development of the traffic; (b) Competition of lines serving the European merchant between the same ports to which American shippers trade, serves as a constant check on rates from America; (c) Tramp competition holds down liner rates.

13. *Rate charges and rate wars.*—It is further claimed that the conference establishes uniform rate charges, the small shipper being treated in the same way as the big one. Under the system of open competition the powerful shipper could play one line against the other and thereby obtain preferential rates. The conference, on the other hand, has no spe-

cial interest in showing favors to big shippers, especially in cases in which earnings are pooled irrespective of the amount of business done by each line.

The rate wars common under open competition often result in the survival of the strongest and in the elimination of the weak lines, but agreements, particularly pools, tend to compensate weaker members for its inability to obtain a large portion of the more remunerative trade.

One of the most important advantages of the conference system is the fact that rates from the United States to a foreign port are maintained on a parity with the rates from other countries. For example, in normal times rates from New York to Rio are the same as those from Hamburg or Liverpool to Rio. This is the more remarkable in view of the fact that the European trade is said to be considerably more valuable to the lines than the American trade, because the former contains a larger portion of high-class package freight and affords better opportunities to obtain return cargoes.

14. *General advantages.*—While the standard of service rendered by the conference lines has improved, certain reductions in the cost of service, made possible by the conference, are said to result in an ultimate reduction of freight rates. Wasteful competition is eliminated, and the aggregate cost of the service rendered by all the lines is accordingly reduced. Furthermore, the cost of service can be more economically distributed so as to develop the trade. Rates

may be reduced on certain articles, compensation being found in increasing the rate on other items. Lines can view the trade "not only as it is, but also as it may become." Ports can be developed which otherwise would be neglected.

Judge Alexander, who presided over the Shipping Investigation, summed up the situation in a recent report with the words:

Steamship line representatives, as well as the patrons of the lines were almost a unit in emphasizing to the committee the importance and necessity of the aforementioned advantages of agreements and conferences.

In fact, it was openly claimed that these advantages far outweighed the following disadvantages:

In the first place, the monopolistic nature of the steamship-line combinations is attacked. It is said that all combinations of private enterprises containing the germ of monopoly are apt to abuse their power to the detriment of the public; the primary aim of conferences being to prevent the establishment of other lines in a given trade. In so far as "fighting ships" are used for the accomplishment of this aim, the shippers' contention finds support in the courts. These fighting ships are sent by the combination to take away the business of an uncontrollable competitor. They dock next to the competitor's ship and take freight at a lower rate than he could afford to grant. When the United States brought suit against the Hamburg-American Line and other foreign steamship lines, attempting to "break up an alleged combination of

European ship-owning lines," the court refused to grant the principal relief asked for by the government, but granted a relief against fighting ships.

15. *Shippers' objections to combinations.*—The fear is expressed that altho the monopoly of the lines may be limited at present, the combinations will become more powerful in the future and will gradually gain complete control over their specific area.

Shippers further object to the secrecy of most steamship agreements, especially to the refusal of the lines to publish their rates and tariffs.<sup>1</sup>

In some cases it is claimed the lines have arbitrarily increased rates without giving the shipper due notice in advance. Shippers also argue that not all lines adhere to the principle of treating all shippers alike.

Strong opposition is voiced against the deferred rebate system. Under this system the line agrees to refund to the "loyal shipper," i.e., the shipper who patronizes the line exclusively with all his shipments in a given direction, a certain portion of the freight charges, usually five to ten per cent. This rebate is paid after periods of considerable length, in some cases as long as twelve months, and is called a "deferred rebate." The system has been practically done away with, as far as the outward American trade<sup>2</sup> is

<sup>1</sup> In Canada, the Railway Act compels any railroad which "owns charters, uses, maintains or works or is a party to any arranging for using, maintaining or working vessels for carrying traffic by sea or by inland water" to file its tariffs with the Board of Railway Commissioners.

<sup>2</sup> In 1913 the Steamship Conference advised Sir Harry Drayton, Chairman of the Canadian Board of Railway Commissioners, that the so-called loyalty provision under which a charge of 10 per cent was

concerned, owing to the institution of suits by the United States attorney-general under the Sherman Act. In other trades the system is still in vogue. Its general significance appears from the following finding of the British Royal Commission on Shipping Rings:

That a conference making use of the system of deferred rebates possesses, so far as the shipper of general merchandise is concerned, a limited monopoly, and that this monopoly is dependent upon the system of deferred rebates, or some tie equally effective.

It is said that if we take the deferred rebate away from the conference, "the existence of conferences depends entirely upon affording the shipper satisfactory service and a reasonable rate. But even where the rebate system exists, the lines are not so powerful as it may seem, since they are constantly exposed to the danger of tramp competition.

The claim that conferences aim to kill off competition is probably true. But experience shows that they rarely succeed. Fights between lines are very costly and mean an enormous amount of work and worry. Therefore, they are avoided when possible. When the lines have fought they have usually met with defeat and have been forced to agree to the admission of the new line.

16. *New lines.*—The New York-Caribbean trade affords an interesting example of the relation of ex-

made for primeage and rebated in six months periods to all shippers who shipped no freight except by Conference Lines, had been withdrawn from their tariffs insofar at least as Canadian Atlantic trade was concerned.

isting conferences to new lines. Until the end of the last century the **Atlas Line**, an English corporation, was the only company offering regular service in this trade. Owing to an over-conservative management, which was not progressive but rather old-fashioned in its methods, the company made little headway. The **Hamburg-American Line**, realizing the opportunity, purchased the company, modernized the service, and within five years was in a position to show considerable profit. At that time the **Royal Mail Steam Packet Company** started a competitive service which led to a desperate rate war between the two rivals. This ended, after two years of struggle, with an agreement between the two companies which gave each its "place in the sun." It was the **United Fruit Company** which, by changing its character from a private line to that of a common carrier, threatened to disturb the balance of power. Realizing the strength of the newcomer the German and the British lines decided to take the United Fruit Company into their confidence, preferring to share the profits rather than to risk losing them in a hopeless rate war.

*17. Combinations among steamship lines in the Canadian Trade.*—All the regular lines sailing to and from Canadian ports are members of the different shipping conferences. The influence of these rings on Canadian trade is similar to that on United States trade.

There is a difference, however. Very few tramp steamers are engaged in carrying Canadian goods.

In the grain trade for instance, it has been shown that 50 to 60 per cent of the grain from Canadian-Atlantic ports is ordinarily transported in passenger ships, only five per cent in tramp boats and all the rest in cargo liners. The tramp steamers exercise at best only a sporadic competition, which affords no protection whatever to shippers requiring regular shipments in less than cargo lots.

*18. Evidence before Commission of Investigation.*—In 1913 the complaints of Canadian shippers and trade organizations culminated in a demand upon the government for relief, either thru the control of rates or by other radical methods. The result was the sending of Sir Harry Drayton, Chairman of the Board of Railway Commissioners, to the United Kingdom to confer with the British Board of Trade as to the possibility of empowering a joint Commission to investigate the whole question of ocean rates and charges. As a result of these conferences, the whole matter was referred to the Dominion's Royal Commission, whose report has not yet been made public.

#### REVIEW

To what extent and when do combinations in ocean traffic exist?

What is the probability of a combination among the owners of tramp steamers?

Describe the shipping conferences and pools which existed before the European war among vessels in the New York trade. Distinguish between a conference and a pool.

What advantages are found in steamship agreements?

Why do shippers object to shipping agreements? Discuss the validity of their agreements.

To what extent is the tramp a competitive factor in Canadian trade?

## CHAPTER VII

### PORTS AND TERMINALS

1. *Nature and function of a port.*—Professor Edwin J. Clapp describes the nature and functions of a great seaport as follows:

A great seaport is a country's right hand extended to foreign lands offering them its products and requesting theirs. It is the focus of a variety of communications; ocean steamship lines engaged in the coasting and the foreign trade, inland water ways and railways. Its function is to bring these lines into contact and to enable them, with the least possible friction and loss of energy, to effect the exchange of their burdens. In a seaport are knit together the bonds that unite the nations in an ever increasing complexity; the seaport is the highest expression of that new phenomenon of the 19th century—worldwide trade. It is the great clearing house for the material goods of international commerce. It is the heart of a country's commercial life, drawing off the sluggish flow of surplus inland production and sending back thru the arteries of traffic the life-giving currents to foreign trade.

The seaport, in its broader sense, is the most important part in the mechanism of foreign trade. It is more than an interesting device; it is a living organism; or rather an essential part of that organism which we call the state, and has a vital function to perform. Its function is to call into life and handle the streams of foreign commerce and coastwise trade, to find for farms, mines and factories the markets and sources of foreign supply that they need, to organize and develop coastwise domestic trade. It is a function that is

of increasing importance as the commercial bond uniting nations becomes closer, the national and international specialization of production more complete, the volume of international exchange greater, and the competition on the world's markets more severe.

*2. Value of seaport to community and "hinterland."*

—A location on the coast has many advantages for the community: (a) Concentration of merchandise and traffic; (b) consequent cheapening of many raw materials; (c) removal of many industries from the interior to the sea border. There are other lesser benefits to the port. In providing for coal, provisions, wharfage, pilotage, towing, etc., water carriers give employment to many lighterage and cartage enterprises, and their passengers need hotels and boarding houses. Finally, the warehousing and the banking business also benefit greatly from the concentration of industry at a seaport.

The prosperity of all these classes is reflected throughout the country at large, particularly the hinterland, or interior. The interior may derive even greater benefit from the service of the seaport than the seaport itself. Thus, interior New England sends or receives three tons of freight thru the Boston gateway for every ton transshipped there to the port itself, thus getting three-fourths of the direct advantage of every Boston steamship service for every one-fourth that Boston retains. This indicates the true relationship between the seaport and its hinterland.

*3. Four classes of ports.*—The port as the terminal

of the ocean route comprises three distinct parts: the channel from the sea, the harbor proper, and the facilities for receiving and forwarding traffic. This classification covers merely the physical equipment of the port. According to Emory R. Johnson, ports may be divided into four classes: the roadstead, the natural bay, the river port, and the combination of river and bay port. Among ports of the first type are Dover, England, and San Pedro, California. Here the governments, by constructing breakwaters and by dredging the basins inclosed by the breakwaters, have created artificial harbors. Natural bay ports are the Puget Sound ports; Pensacola, Florida; Rio de Janeiro, Brazil; Victoria and Lisbon, Portugal. In almost all cases the depth of the bay has to be increased by dredging.

Most seaports, however, are located at the point where river and ocean navigation meet. Formerly this point was found much farther inland than it is today, when the draft of ocean vessels is thirty feet or more. For example, Cologne on the Rhine, 210 miles up the river from the Hook of Holland, in mediæval times was a great seaport, altho the depth of the channel could hardly have amounted to more than three feet. Ports like Hamburg, 85 miles up the Elbe, Bremen, 75 miles up the Weser, and Antwerp, 59 miles up the Scheldt, hold their position only because of enormous expenditure to adapt the channels of these rivers to modern requirements. And even

in spite of all efforts the largest ships can no longer enter these ports, but must stop at outside stations at the mouth of the river, such as Cuxhaven and Wilhelmshaven. Likewise, large steamers for London get only as far up as Tilbury Docks.

London, Rotterdam, Montreal, Philadelphia, New Orleans, and Portland, Oregon, are other significant examples of river ports. The river, first by the transportation service which it renders itself, and later on by the competition which it causes to railroad transportation, has laid the foundation of the prosperity of these ports.

The most favorable location for a port is the head of a bay into which a large river discharges. New York is the most conspicuous example of such a port. Its maritime commerce excels that of any other port in the world. For this reason, as well as because of the fact that New York forms the main gateway of the foreign commerce of this country, we shall here give a more detailed account of the present status and future possibilities of this port.

*4. New York's predominance.*—The Department of Commerce of the United States credits New York with an aggregate foreign trade of \$2,125,000,000 in the fiscal year 1915, or \$200,000,000 more than the trade of London. For the sake of comparison, the figures showing the value of imports and exports of the twenty leading ports of the world, according to the latest available statistics, are given on page 294.

## SHIPPING

	Imports	Exports
New York .....	\$931,000,000	\$1,193,600,000
London .....	1,232,100,000	696,000,000
Hamburg .....	1,084,300,000	817,300,000
Antwerp .....	623,200,000	588,200,000
Liverpool .....	810,000,000	886,000,000
Marseilles .....	389,600,000	365,700,000
Havre .....	357,900,000	258,800,000
Bremen .....	370,600,000	211,400,000
Calcutta .....	229,300,000	317,600,000
Bombay .....	202,800,000	225,400,000
Buenos Aires .....	200,800,000	140,400,000
Trieste .....	176,000,000	161,400,000
Singapore .....	186,400,000	145,400,000
Hull .....	199,700,000	130,500,000
Sydney .....	151,900,000	151,400,000
Genoa .....	199,800,000	108,100,000
New Orleans .....	79,700,000	209,400,000
Montreal .....	141,200,000	119,300,000
Boston .....	152,700,000	107,500,000
Shanghai .....	159,200,000	98,600,000
Manchester .....	164,200,000	93,200,000
Galveston .....	10,100,000	230,400,000
Glasgow .....	82,100,000	155,000,000
Kobe .....	140,400,000	83,400,000
Dunkirk .....	187,500,000	36,200,000
Yokohama .....	89,000,000	134,200,000
Alexandria, Egypt ..	91,100,000	116,100,000
Melbourne .....	118,400,000	86,400,000
Southampton .....	91,100,000	94,700,000
Petrograd .....	110,900,000	69,100,000

New York's share of the exports and imports of this country amounted to:

Year	Exports	Imports
1862 . . . . .	72 per cent	68 per cent
1872 . . . . .	53 per cent	66 per cent
1882 . . . . .	43 per cent	68 per cent
1892 . . . . .	40 per cent	64 per cent
1902 . . . . .	36 per cent	61 per cent
1912 . . . . .	37 per cent	52 per cent
1913 . . . . .	37 per cent	57 per cent
1914 . . . . .	37 per cent	55 per cent
1915 . . . . .	43 per cent	56 per cent
1916 . . . . .	53 per cent	54 per cent

Official statistics show that New York has collected, for the last 20 years, an average of 65 per cent of the nation's customs.

5. *New York's "hinterland."*—The hinterland of New York, because of the unparalleled concentration of trunk lines at this port and the competition existing among them, extends far beyond the normal sphere of influence of a port. This railroad situation tends to perpetuate in New York the preponderance in exports from the West; the foundation of which was laid by the Erie Canal. The preeminence of New York among the ports of the Atlantic seacoast is so marked that New York is in a class by itself, all other ports being called "outports." These "outports" must content themselves with only one or two or three trunk lines. Thus, Norfolk is reached by the Norfolk and Western, Newport News by the Chesapeake and Ohio. Both these railroad companies enter New York via the route of the Old Dominion Steamboat Company,

in which they are part owners. Baltimore is the home port of the Baltimore and Ohio, which shares the trade of this port with the Pennsylvania and the Western Maryland (now part of the New York Central System). Philadelphia has the Pennsylvania Railroad, but is also served by the Baltimore and Ohio and by the Reading. All these roads can not dispense with a direct or indirect connection with New York, which has, in addition, two exclusive trunk lines of its own, the New York Central and the Erie.

6. *Railroad-steamship lines.*—Railroad facilities attract line service, either by their mere presence, as in the case of New York, or by special inducement, as in most "outports." These inducements may take the form of railroad participation in the construction of steamship lines, the guarantee of a minimum cargo for proposed sailings, or an exclusive contract with the steamship line to give it all the cargo collectible. The railroads often refuse to grant thru bills of lading for shipments going thru other ports than that in which they are particularly interested. It is a common practice for a railroad to grant the use of a pier free of charge to that steamship line with which it cooperates. In the case of New York, the steamship lines are so anxious to share in the rich traffic of that port that no inducement seems necessary.

7. *Charter traffic in Atlantic seaports.*—As far as tramp traffic is concerned, New York does not hold the same leading position, as appears from the following table. It is true that these figures refer only to

grain cargoes. Since, however, grain is the most important outward cargo for tramps, the figures given below may be considered as representative of the situation.

NUMBER OF FULL GRAIN CARGOES LOADED AT PHILADELPHIA,  
BALTIMORE, BOSTON, AND NEW YORK.<sup>1</sup>

Year	Philadelphia	Baltimore	Boston	New York
1878 . . . . .	13	37	..	29
1883 . . . . .	46	152	..	24
1888 . . . . .	3	43	..	21
1893 . . . . .	30	64	..	86
1898 . . . . .	243	284	..	269
1903 . . . . .	18	31	2	11
1908 . . . . .	42	5	..	..
1909 . . . . .	13	11	..	..
1910 . . . . .	1	11	..	..
1911 . . . . .	14	17	..	4
1912 . . . . .	36	58	..	24
1913 . . . . .	34	129	..	20
1914 . . . . .	29	156	..	74
<sup>2</sup> 1915 . . . . .	33	145	..	86

The strong position of Philadelphia and Baltimore in the grain trade, as far as it is carried on by tramps, is due, among other reasons, to the differential rail rate which favors these ports over New York and Boston, the reasons for which are explained in the Modern Business Text on "Railway Traffic." The recent revival of grain traffic at New York, beginning in 1910, is due to the establishment of an elevator service at reduced charges, this reduction largely offset-

<sup>1</sup> This table was furnished by Frank L. Neall, manager *Consolidated News*, Statistics and Transportation Bureau, Philadelphia.

<sup>2</sup> To March 31st.

ting the effect of the differential. Boston gets only a rare overflow cargo, owing mainly to the effect of the railroad differential against the port, on exports from the West.

8. "*Entrepot*" or *transshipment trade*.—While today railroad and steamship connections are the determining factors in the upbuilding of a great port, another feature of port development is of greatest importance: "entrepot" or transshipment trade. In the olden days this trade was often based upon a privilege granted to certain cities by the ruling power, and in many cases was the key to successful port development. London and Hamburg owe much of their present greatness to their transshipment trade. Today Hamburg is supreme in the transshipment trade with Russia and Scandinavia. Whether it will regain its position lost as a result of the war, is a question which cannot now be answered. The extent of London's transshipment trade can hardly be measured as a separate unit by itself. In a consideration of England's trade, London, Liverpool and other markets must be taken together as coordinated markets, with London as the controlling center, for commodities traded at London are often warehoused in other English ports. Among the hundreds of things that England re-exported we find over 6,000,000 pounds of pepper, almost 14,000,000 pounds of raw cocoa, 53,000,000 pounds of tea, more than 3,000,000 pounds of tobacco, 338,000,000 pounds of ordinary wool,

824,000,000 pounds of raw cotton, 923,000,000 pounds of palm oil, 978,000,000 pounds of tallow, and 726,000,000 pounds of rubber.

Compared with this, the re-export trade of the United States is exceedingly small. Measured by its value in 1913 it amounted to but 1½ per cent of all exports, and 7/8 per cent of all the country's commerce. It has been decreasing in proportion to the whole trade.

The main advantage derived from "entrepot" trade may be seen in the establishment of large markets. These markets attract considerable amounts of merchandise which would otherwise be shipped to other parts of the world. London's privileged position as the world's consignment market is the best illustration of this condition. A consignment shipment is exported before a foreign buyer has been found. If a merchant or producer cannot wait until he has sold his goods to ship them, and is unable to sell his goods afloat, he consigns them, in most cases, to a merchant in London, where most commodities can be readily sold. For certain goods, such as coffee, Hamburg has become a consignment market.

*9. Lack of transshipment trade at New York.*—New York as a trading center, i.e., a market for commodities, takes a place behind London and Hamburg, and in a way is hardly of greater importance than several minor European cities. New York is not a focus where large quantities of raw materials and

manufactures converge from all parts of the world to be sold and distributed again to other far corners of the globe. It has not yet become a market port.

Many reasons explain the different position of London and Hamburg on the one side, and New York on the other. American commercial banking, until the passing of the Federal Reserve Law, was unable to finance foreign trade to any extent; consequently London's supremacy as the financial center of the world went almost unchallenged. Furthermore, in contrast to New York, London and Hamburg possess a warehouse system which is developed to a high degree of efficiency. The close cooperative organization of great foreign trading houses, with branches and correspondents in all parts of the world, which, in the case of Hamburg, may be said to amount almost to free masonry in the execution of trade, is an asset that New York does not yet possess.

10. *British raw materials.*—Thru large markets, which often take the form of auction markets, London exercises a powerful control over the world's supply of important raw materials, especially of wool and raw rubber. Modern manufacturing often requires the mixing of different grades of raw materials that are produced in different parts of the world. This mixing renders the assembling of raw materials in great central markets most desirable.

To be sure, London owes much of its position as the world's leading trading center to its position as the

capital of the British Empire. How large a portion of the world's important raw materials is grown in the British Empire appears from the following table. Here the imports of the United States for the fiscal year 1914 are divided according to their source of origin. This table summarizes the possessions of all the Entente Allies in the European war and does not show the British colonies separately. These, however, form a large proportion of the territory controlled by the Allies.

**ANALYSIS OF UNITED STATES' IMPORT OF RAW MATERIALS FOR THE YEAR 1914.**

	From Non-Ally Territory	From the Entire World
Abrasive materials .....	\$319,920	\$855,412
Aluminum .....	1,130,390	2,707,006
Antimony .....	200,082	696,362
Asbestos .....	1,790	1,678,736
Asphalt and bitumen .....	445,623	722,339
Bismuth .....	253	241,449
Dried blood .....	145,165	391,816
Bones, hoofs and horns .....	720,920	1,061,466
Bristles .....	1,761,851	3,196,469
Chalk .....	15,968	156,525
Chemicals .....	44,604,486	62,531,241
Vanilla beans .....	1,236,718	2,277,675
Wax mineral .....	472,999	543,103
Wax vegetable .....	925,279	1,049,126
Gums .....	2,529,301	12,735,627
Chicory .....	24,502	47,882
Clay and earth .....	232,493	2,246,807
Cobalt ore .....	53,062	115,038
Cocoa .....	3,739,573	20,797,790
Logwoods .....	186,166	487,892
Feathers, undressed .....	305,040	4,871,663
Fertilizers (except potash) .....	3,104,600	7,990,023
Coffee .....	110,649,987	110,725,892
Cork .....	3,942,156	6,499,632
Cotton (raw) .....	6,303,556	19,456,588
Potash and manure salts.....	15,048,836	15,160,123

## SHIPPING

	From Non-Ally Territory	From the Entire World
<b>Fibers:</b>		
Flax .....	64,378	91,870,974
Hemp .....	159,536	1,564,483
Jute .....	63,363	11,174,028
Miscellaneous fibers .....	37,140,308	39,974,032
Fluorospar .....	1,818	50,851
Oleaginous nuts .....	4,013,064	7,769,054
Furs and skins .....	5,306,039	18,835,646
Gelatin .....	606,542	738,731
Glue .....	985,457	1,805,543
Grease .....	738,416	1,800,650
Hair .....	1,379,442	3,369,978
Hides and skins .....	57,559,395	119,374,587
Rubber, gutta percha, etc. ....	24,566,609	76,162,220
Iridium .....	43,824	207,832
Iron chromate .....	195,293	737,127
Iron ore .....	5,386,041	11,901,007
Ivory .....	113,885	1,340,644
Ivory, vegetable .....	844,843	881,354
Manganese oxide .....	576,051	1,841,451
Ferro alloys .....	3,741,281	6,630,538
Mica .....	78,561	836,815
Monozite sand, etc. ....	52,929	52,329
Moss, etc. ....	120,856	301,959
Nickel ore .....	826	6,203,301
Oakum .....	\$241,488	\$1,039,951
Palladium, etc. ....	20,006	169,171
Platinum .....	1,378,513	1,846,126
Graphite .....	224,055	1,846,126
Radium .....	37,851	59,816
<b>Vegetable oils:</b>		
Cocoa butter and oil .....	2,661,683	7,497,393
Olive oil .....	1,096,876	8,394,190
Palm oil, soya, etc. ....	3,871,669	10,549,034
Silk .....	15,961,541	97,928,243
Spices .....	7,802,104	11,962,557
Sponges .....	211,735	~ 481,973
Sulphur .....	2,970,036	3,695,335
Tanning material .....	1,180,456	1,566,001
Tin .....	1,937,676	39,427,430
Tobacco .....	34,397,488	35,034,929
Tungsten .....	78,709	129,291
Wax .....	401,030	476,364
Whalebone .....	.....	11,452
Woods, etc.:		
Briarwood .....	1,865	241,493
Cabinet woods .....	3,281,817	9,341,329
Rattans .....	175,988	510,842
Wood pulp .....	11,046,802	17,023,333

	From Non-ally Territory	From the Entire World
<b>Wools:</b>		
Wool, clothing .....	8,846,430	28,922,605
Wool, combing .....	577,948	3,857,123
Wool, carpet .....	7,898,170	17,029,611
Wool, angora, etc. ....	266,513	572,430
	<hr/> <b>\$447,881,504</b>	<hr/> <b>\$909,027,580</b>

11. *Freeports.*—One practical step toward establishing a large transshipment trade at the port of New York has been made in the proposition for making it a "freeport." Such an institution is merely a section of a port, in some cases an entire port, which is excluded from the customs territory. This exclusion facilitates re-exportation, since it saves the trouble involved in bringing goods thru the customs.

Another type of freeport is that of Hongkong. This harbor—whose vessel tonnage entering increased 265 per cent from 1888 to 1912, while that of New York during the same period increased but 140 per cent—is an absolute freeport. There are great "godowns," as warehouses are termed in that part of the world, manufacturing establishments, commercial houses, banks, and all the paraphernalia of trade, and the commerce and industries connected with the business thus built up now support a population of approximately 400,000. Copenhagen was made a freeport in 1891. Just now, Spain is trying to improve her position as a neutral trading nation by establishing a freeport in one of her great ports. Many other freeports exist.

Just now a resolution is before Congress providing

for a commission to consider the question of creating freeports in the United States.<sup>1</sup> The resolution is strongly supported by the Merchants' Association in New York which is said to have originated the freeport idea in this country. Several years ago the Merchants' Association sent Mr. Philip B. Kennedy, an expert in trade and transportation, to Europe to make a survey and complete study of the leading European freeports. His report, covering fifty-five pages, was published in February, 1914, by the Association, and amounts to a strong recommendation for the establishment of a freeport in New York.

An essential feature of the equipment of a modern seaport is the freight-handling machinery. The tendency of the age is to economize in labor by investing capital in machinery. In Hamburg, whose port possesses an excellent equipment of electric and hydraulic cranes and hoists, a remarkable speed in the handling of trade is attained. Thus the average rate of discharge at the "Kuhwarder piers" is 250 tons of general cargo per hour. In the handling of bulk commodities the ports of United States are probably superior to all others.

<sup>1</sup> In the summer of 1916, following the lead of the United States agitation on the subject, a proposal was made that a stretch of shore opposite Montreal, extending from St. Lambert to Longueuil, should be set aside by the Canadian government as a freeport and that goods should be permitted to pass in or out, duty free. The proposal, however, was given little serious consideration, partly because of its newness and partly because it was difficult to see just what advantages would accrue to the country as a whole. In most cases Canadian manufacturers are now getting their raw materials free as it is, and Canada as yet can make little pretence of being a great intermediary trading nation.

**12. Rail and water coordination of carriers.**—An important problem of harbor traffic is the coordination of rail and water carriers. That means providing the most economical method of exchanging freight between rail and water carriers. The lack of such a method results in serious waste in drayage, lighterage and switching. Wherever it is possible, piers and quays ought to possess direct rail connection. Various railroads serving a port should be linked together by such a belt line as that which exists, for instance, in New Orleans. New York has a natural belt line in its harbor waters. In New York an extensive car-float service and a lighterage system, with free delivery within extensive limits, greatly facilitate the moving of cargo from any part of the harbor to another, from one railroad to another. The existence of such service accounts for the decentralization of industries thruout Greater New York. Factories are scattered over almost the entire waterfront, including Manhattan, Staten Island, Brooklyn and the Bronx.

**13. American International Terminal Corporation.**—One of the most promising events in the world of dock development is the organization of the American International Terminal Corporation, a subsidiary of the American International Corporation. This new company has been formed to make a study of railway, steamship, warehouse and industrial terminals. The American International Corporation, because of its interest in the development of South American trade and also because of its extensive holdings of shipping

stocks—it owns large amounts of shares of the International Mercantile Company, the United Fruit Company and in connection with its associate, W. R. Grace and Company, controls the Pacific Mail Steamship Company—is vitally concerned in the bringing about of better rail and water coordination in American ports. It is claimed that transportation on land and sea has reached higher development in traveling and carrying equipment than in terminal facilities.

The significance of the terminal problem was well stated by an officer of the new company, in the following words:

It is well known that the capacity of a railroad is limited to what its terminals can handle. Its miles of track cannot be used to their utmost if the terminals cannot take care of the freight. Likewise the greatest preventable waste of the time of cargo ships occurs at docks and anchorage, incident to loading and unloading. Transfer facilities in general— involving the discharge of goods from trains, their distribution to consumers, their storage in warehouses, their exchange from one railroad to another, their loading into ships—all of these functions are more difficult, more costly, and less understood than the straight carriage of goods by rail and boat.

*14. Canada's leading summer port: Montreal.*—No single port in Canada holds a place comparable to that of New York. Montreal most nearly approximates it. Among Canada's ports it is easily first, both in exports and in imports, in spite of the fact that it is closed for nearly five months in the year. The exports from Montreal during the calendar year 1916

amounted to \$382,741,468, and its imports to \$194,924,348, or 34 per cent and 26 per cent respectively of the totals for the whole of Canada. These figures are higher than usual, but in the last three years Montreal has received 24 per cent of Canada's imports, and despatched 22 per cent of her exports. Ordinarily about one-fourth of Canada's customs dues are collected at this port. In respect of tonnage again, it is excelled by two only, and in some years by one only, of Canada's ports. For 1915 the total tonnage of the 484 trans-Atlantic steamers, the 331 ships from the Maritime provinces, and the 8,572 "inland" vessels from the Upper Lakes, which arrived in the harbor amounted to 6,488,700. The sea-going tonnage of 4,031,299 in 1915 compared with a total of 13,132,944 for the whole of Canada. In the previous season, the number of vessels arriving at the port of Montreal was 13,141, with a tonnage of 9,044,457.

15. *Montreal's hinterland.*—The inland seaport owes its dominance to its position at the point of convergence of important commercial highways. The St. Lawrence Ship Channel, on which some \$70,000,000 has been spent by the government, leads to the Atlantic. The Ottawa River also leads up to the Dominion capital and to the greatest lumbering region of the country. Direct access by rail and canal is also secured to the Hudson Valley and New York thru the valley of the Richelieu River.

But more important is the magnitude of the port's hinterland. It is the natural outlet for Ontario. It

is also the natural Canadian outlet for nearly the whole interior of the country. The Great Lakes routes, the greatest of fresh water transportation system in the world converge upon it.

16. *Canadian Pacific and Grand Trunk Railways.*—Montreal is the headquarters of the Canadian Pacific, the Grand Trunk and the Grand Trunk Pacific Railways which gather grain, cattle, fruit, dairy produce, minerals and other products from the interior of Canada. These railways, in addition to their Canadian mileage, own a large mileage in the United States, stretching out to Chicago and other important centers of the Central and Western states. For the Canadian Northern Railway, Montreal, tho not the headquarters, is the most important seaport. Finally, it is the western terminus of the Intercolonial Railway. All these routes facilitate the collection of coal and raw materials, leading to large manufacturing industries on the harbor waterfront which also receive assistance from the cheap water power of the near-by Lachine Rapids.

17. *Coordination of rail and water services at Montreal.*—The importance of coordination of rail and water carriers has already been pointed out. In this respect Montreal is well served. One of the unique features of the port is the complete ownership by the Dominion government of the entire waterfront, including both sides of the river for a length of 18 miles. Control is exercised by a harbor board of three commissioners. Under their control is a well-equipped

freight transportation railway. The charges for moving cars are set forth in a tariff adopted by the harbor board. The system is connected with every railway that enters or terminates at Montreal, and includes over 50 miles of tracks.

18. *Traffic to and from Montreal*.—Situated at the point where grain from the West is transshipped from the railroads, and from lake and river boats to ocean steamers, Montreal has the largest grain elevators of any ocean port. The total capacity of the elevators is now nearly 9,000,000 bushels of grain. In the season of 1914 they handled over 75,000,000 or over 10,000,000 more than New York, the nearest competitor among the Atlantic ports.

19. *Canadian Pacific ports*.—On the Pacific coast, Canada's principal ocean ports, are Vancouver, Victoria and Prince Rupert, all three with splendid natural harbors and all three nearer to the Orient than Pacific ports of the United States. The building of the Panama Canal led to considerable improvements by the government and the railways in the ocean terminal facilities in all three cases.

In respect to tonnage, Vancouver and Victoria lead the Dominion ports. In 1916, the tonnage of sea-going vessels entering and clearing from Victoria was 4,169,908. Vancouver tho with a larger total tonnage, ranked only second from the point of view of sea-going tonnage with 3,481,761 tons.

20. *St. Johns and Halifax*.—On the Atlantic coast are the ports of St. John and Halifax, which, along

with Portland, Me., share the trade lost to Montreal during the winter months. St. John is the winter port for the Canadian Pacific liners from Liverpool. Halifax has one of the finest and safest harbors in the world. It is easily accessible from the ocean by the largest vessels afloat, in any weather and at any state of the tide. Halifax is 616 geographical miles nearer to Liverpool than is New York. It has also a similar advantage of 200 miles over St. John, and chiefly because of this it makes a claim for supremacy as Canada's leading winter port. Its rival makes the counter-claim that it is nearer the center of Canada where the freight originates. Just at present, measured by sea-going tonnage and by exports and imports, St. John is in the lead.

Quebec, which was formerly an important ship-building and timber port, has lost much of its importance since the deepening of the St. Lawrence to Montreal. It has, however, a fine harbor and the terminal and elevator facilities are ample for a considerably larger business than the port at present enjoys.

#### REVIEW

What is the importance of a port, and what is its relation to its hinterland?

Describe four classes of ports differing in their physical characteristics.

What is the relative importance of New York among the great ports of the world, and among the ports of the United States? How have railroads contributed to its development?

How do the shipping facilities of New York compare with those of other American ports in liner service? In tramp service?

What is the significance of transshipment business, and why is it more highly developed abroad than in New York?

Describe free ports and the function which they perform. Discuss the proposal for a freeport at New York.

What is the physical relationship between ocean shipping and the railways? How closely are they associated in actual management?

Give reasons for the present position of Montreal among Canadian seaports.

## CHAPTER VIII

### STATUS OF AMERICAN MERCHANT MARINE, AND RECENT LEGISLATION

1. *Present role of American shipping.*—Of the overseas commerce of the United States only a small proportion—10.1 per cent in 1913, 9.7 per cent in 1914 and 11.4 per cent in 1916—is carried in American bottoms. Tho the merchant fleet of the United States ranks second to that of Great Britain, it is for the most part operated in coastwise traffic and on the Great Lakes. In the general carrying trade of the world American shipping plays only a minor role. British and Norwegian ships transport the commerce of their own countries and a large share of that of other nations. The United States does not even carry its own commerce.

2. *Coastwise tonnage.*—It should be borne in mind that no problem has arisen in connection with that part of our merchant marine which is engaged in the home trade of the country on ocean, lake and river. This part of our navigation has been reserved to American vessels since the founding of the Federal government. The early policy of reserving our coastwise tonnage to American registry and ownership, followed without material modification ever since, has resulted in a steady rise of our coastwise and lake tonnage from

66,607 in 1789 to 6,852,536 in 1914. The coastwise shipping represented by these figures considerably excels that of any other nation. Indeed these figures are even greater than those of the entire coastwise and overseas tonnage of the German Empire; they represent three times the entire tonnage of France or Norway. In short, American coastwise navigation is a well-developed and prosperous business, with free play of competition among its participants.

3. *Merchant marine a national question.*—The subordinate role of American shipping in the world's carrying trade has been held up to us as a national reproach. But the question of our shipping interests is more than a matter of sentimental regret. It is one of national concern, vital to a healthy development of our foreign trade. It is futile to shed tears over past glories now departed. What is needed most is a dispassionate, thoro study of present conditions. The true significance of the present situation cannot, however, be fully grasped without a brief reference to certain past conditions of which it is the out-growth.

4. *Beginnings of our merchant marine.*—The history of the American merchant marine has been often told, and we need only refresh our memories on some of its chief incidents which have a bearing on present problems.

When the nation was born the merchant marine was in a sorry plight. Promising developments of the colonial period had been checked by the Revolutionary

struggle and in 1789 the entire fleet registered for foreign commerce amounted to only 123,893 tons. The tariff legislation of the period favored our ships by a reduction of duties by ten per cent for all goods imported in American vessels. The Napoleonic struggle in Europe then impending, and soon to break out and engage the energies of Europe for the next decade and a half, stimulated our shipping. Tonnage grew to 667,107 in 1800. Our own trade had been handled almost entirely in our own vessels and we absorbed a large carrying trade from the West Indies to Europe, and a considerable transshipment trade arose.

5. *Development of shipping checked.*—Things went well until combatants in Europe thru their blockade began to interfere with our shipping. Vainly we protested. Our protests unheeded, we were led into the War of 1812 of glorious memories and vague and uncertain results. When peace settled upon the world we were confident of the strength of our position. The preferential treatment of our shipping was abandoned and commercial treaties removed all special advantages we had enjoyed.

Our merchant marine developed more slowly. By 1850 it had reached 1,585,711 tons. In 1830 our ships carried 90 per cent of our commerce. In 1850 on the other hand, the percentage of American commerce carried in our ships had decreased to 72.5, tho the amount and value had somewhat increased. In the meantime however, the fleets of foreign countries, es-

pecially Great Britain, had increased more rapidly.

Conditions of competition were changing. Steam was beginning to be applied as motive power. Great Britain encouraged the building of steamships by a system of subsidies. The Cunard Line owes its beginning to this policy. To some extent the United States met this competition, and in the forties several steamship lines were subsidized. In 1847 the government made its contract with the Collins Line which became a worthy rival of the Cunard.

6. *Shipping begins to decline.*—For a few years there was a splendid development of American shipping which reached its climax in 1855, when no less than 583,450 tons of shipping were launched from American yards. In the next few years and even before the Civil War there was a marked falling off. This followed the withdrawal of the subsidies and encouragement which the government had given to shipping. The Civil War merely accelerated the decline of American shipping, which had begun six years earlier. Anglo-Confederate cruisers between 1861 and 1865 burned or appropriated 110,000 tons of American shipping, and drove 751,595 under foreign (mainly British) colors. Thus the seagoing fleet, which in 1861 amounted to 2,496,894 tons and carried 65.2 per cent of our exports and imports, had shrunk in 1866 to 1,387,756 tons, which carried only 32.3 per cent of the foreign trade.

7. *Recent tendencies.*—From these blows American shipping has never recovered. The loss was

steady until 1898, when a minimum tonnage of 726,218 was reached. A slight recovery has taken place. The lowest point was reached in 1900 when only 8.2 per cent of our foreign trade was carried in American ships.

The decline in American shipping was coincident with the rise of iron and steel ships. The supremacy of American shipping was largely based upon the abundance of raw material and skill in ship construction. With the appearance of iron materials this supremacy passed to Great Britain. For many years British shipyards enjoyed not only this advantage, but those of a lower wage scale, and of large scale production.

During the past thirty years the question of stimulating the merchant marine has been constantly before the public, but little has been accomplished. The only positive legislation is the Postal Aid Act of 1891, under which arrangements are made with American lines for the carriage of mails, at rates somewhat higher than contract rates.

*8. American merchant marine compared to others.*  
—It is rather a difficult undertaking to measure the comparative size of the merchant marine of various countries, as the statistics are not made up on the same basis; in particular, the distinction between coastwise and foreign trade tonnage is not in all countries clearly drawn.

The following table, prepared from "Lloyds Register," 1914-15, and the report of the United

States Commissioner, 1914, shows the number of the net and gross tonnage of steam and sailing vessels of over one hundred tons of the ten leading foreign nations and of all vessels of the United States in the foreign trade except barges.

Flag	Number		Gross Tonnage Steam	Net Tonnage		
	Steam	Sail		Steam	Sail	Total
British	10,128	1,906	20,528,706	12,495,132	521,343	18,016,475
German	2,090	296	5,184,720	3,116,968	324,575	3,441,544
Norwegian	1,656	585	1,987,853	1,173,036	547,389	1,720,405
French	1,025	551	1,922,296	1,099,914	398,153	1,498,066
Japanese	1,103	—	1,708,386	1,088,383	—	1,088,383
Dutch	709	97	1,471,710	910,123	94,745	934,968
Italian	697	526	1,430,475	872,303	287,821	1,110,124
Austro Hungarian	438	12	1,052,846	683,873	8,373	657,546
Swedish	1,068	678	1,015,364	501,352	102,373	604,044
Russian	747	507	851,949	500,352	201,869	702,321
United States	884	473	724,874	446,592	220,569	676,091

9. *United States steam foreign trade.*—It must be noted that the figures for the ten foreign nations include both foreign and coastwise tonnage, whereas those for the United States include only vessels registered for foreign trade. This is not an unfair comparison, as in foreign nations the tonnage employed in coastwise shipping is a relatively small proportion of the entire merchant marine.

The following is a table which gives an analysis of the United States steam vessels in foreign trade. It clearly shows the sad state in which the American merchant marine is at the present time:

Classification	No.	Tonnage
Over 20,000 tons	1	20,718
10,000 to 20,000	10	120,198
7,000 to 10,000	10	86,068
5,000 to 7,000	30	181,214
3,000 to 5,000	34	124,814
1,000 to 3,000	52	104,796
500 to 1,000	58	40,819
100 to 500	125	30,066
Less than 100 tons	564	16,681
<hr/>		
<b>TOTAL</b>	<b>884</b>	<b>724,874</b>

In recent years conditions have changed greatly, and many of the adverse factors which have prevented the growth of an American merchant marine have either been eliminated or have been converted into favorable influences.

10. *Awakening interest.*—Thus the interest in the internal development of the country is no longer all-absorbing, and no longer entirely precludes the interest in the overseas trade. The large amounts of capital which have been invested in American shipping by such firms as the Standard Oil Company, United Fruit Company and the United States Steel Products Company show the new trend of thought.

The development of our steel industry has brought the price of ship plates somewhat below the figure quoted by British manufacturers. This should benefit especially the manufacturers of standard tramp steamers. Furthermore, new railroad lines have been constructed which act as feeders of our shipping industry. This is especially true of coal-carrying rail-

roads. Virginia steam coal of excellent quality can now be delivered at low cost at Atlantic seaports, such as Norfolk, Newport News, and Charleston. This coal might be able to compete with the Australian, Japanese and Welsh coal which now controls the Far Eastern market, and might tend to reduce the return freight rates on imported nitrates, as well as on copper, tin and iron ores.

Thus the time seems right for a wholesome development of the American merchant marine, but so far the genius of American business has stayed at the seaboard.

11. *Adverse economic conditions.*—While the stage is set for the new era of the American merchant marine, there are economic conditions which even today hamper a free development of American shipping. Here we must recall the American wage scale for officers and engineers and the higher requirements, due to more stringent navigation laws, applied to American shipping as compared with that of other countries, in regard to food, crew quarters and life-saving equipment. It is idle to scold American business of today for a lack of enterprise on the ground that it refuses to enter on a large scale into merchant shipping. This is not the case, for American capital is invested in foreign shipping to such an extent that prior to the European war the total foreign shipping owned by American interests aggregated between one and one-half and two million tons.

12. *Congressional attempts to aid.*—The first evi-

dence of a desire of Congress to encourage American shipping on the high seas was the insertion, in the Panama Canal Act of 1912, of a clause authorizing the naturalization or admission to American registry and flag of foreign built vessels under five years of age, and granting the free entry of materials used in the construction and equipment of ships. This clause reversed the national policy of a hundred years. In the face of this invitation, two years went by without a single foreign built ship seeking the American flag. No better evidence could be desired of the higher cost of operation imposed by American policy than in this fact.

The willingness of Congress to encourage shipping was further proved by the inclusion in the present tariff act of a clause allowing a discount of five per cent in the customs duties on goods imported in American bottoms. We are reminded of the early policy of 1789 which had produced such marvelous results, but administrative interpretation has thus far made it non-operative and its legality (in the face of our treaties) is before the Supreme Court upon appeal.

13. *New conditions caused by the European war.*—The European War created new conditions and opportunities which Congress had to take into account. Thus, on August 18, 1914, an act was passed which eliminated the five-year age limit and also the requirement of "fitness to carry dry and perishable cargo;" in other words, removed all the modifications of the Panama Canal clause admitting foreign built vessels to

American registry. Thus the doors were opened wider still. Ships entering American registry were allowed to retain their foreign officers, which reversed the policy that the American flag could fly over no ships not officered by Americans. As a result some hundred and seventy-five to two hundred steam and sail vessels have come under the American flag. A large percentage of the boats were already employed in American trade, most of them the property of American citizens before their admission to American registry. The motive of ship owners in transferring their ships to American registry during the European war is to secure the protection of the flag of the most powerful neutral. The flag and the more favorable marine insurance rates constitute a generous subsidy for the time being to these unfortunate ships.

If, with peace, the old conditions are allowed to revive, the ships will probably be transferred back again to their old flags.

The government also established a War Risk Bureau to insure American vessels during the war. This action afforded American vessels the same protection in the War Zone as was given to vessels of other nations thru the establishment of similar institutions.

Little real encouragement can be found in the results of the Emergency Act of 1914, for in spite of the great inducements resulting from war conditions, there came a significant halt in seeking American reg-

istry. Fewer and fewer vessels applied for the American flag.

14. *Ship Purchase Bill*.—Following the ship registry act, the preferential clause of the tariff and the War Risk Bureau, ambitious projects appeared to develop American shipping in foreign trade. At that juncture a severe blow was struck by the administration's announcement of its intention to operate ships in foreign trade under government control. Without leaving commercial and financial enterprise time to recover from the initial shock of the war, the government took this unfortunate form of expressing its discontent with failure of private shipping concerns to avail themselves of the momentous opportunity to build up an American merchant marine.

Of the reasons behind the Ship Purchase Bill of late 1914, E. J. Clapp in his "Economic Aspects of the War" says:

One of these was the desire to relieve the distress of the cotton states and to start a movement of grain which for a time was halted by lack of ships. Another reason was the desire of the Democratic Administration to call into life an American merchant marine.

The bill was projected in August and September of 1914. It provides for a corporation in which the American government was to be the main stockholder. The corporation was to have fourteen million dollars at its disposal, available for purchasing ships.

The only ships that could have been bought were the interned German ships in our ports. They were needed to carry cotton to Germany, not yet cut off

by the blockade. But the British objection to the purchase of German ships caused the administration so to veil its intentions as to ships and services that it finally appeared as if the administration were asking for ships from un-namable sources to institute unnecessary and superfluous services. The bill was defeated in February, 1915.

15. *Seamen's Law*.—Another unfavorable government policy was introduced by the enactment of the Seamen's Law. This bill had once before passed both the House and the Senate, but had been vetoed by President Taft just before the close of his administration. In the Presidential campaign of 1912 both parties committed themselves to the passage of the Seaman's Bill. The Seamen's Bill accordingly was introduced into the Sixty-third Congress and after almost two years of consideration was unanimously adopted by both Houses of Congress. It became effective for American vessels November 4, 1915, and has applied to foreign vessels since March 4, 1916. The Attorney General has decided that the severe requirements as to life-saving equipment and the manning of such equipment do not apply to foreign vessels owned in countries with which the United States still has reciprocity treaties. American ships thereby are placed under a further handicap. Furthermore, in order to insure greater safety for passengers, the law provides that American ships must have a greater number of deck hands, rated as "able seamen," than is required by the law of any other country.

The Seamen's Law furthermore contains the stipulation that 75 per cent of the crew in all departments must be able to understand any order given by the officers. This paragraph prevents the employment of Asiatic crews on American vessels, and thereby makes it practically impossible for American ships to compete in the Pacific with Japanese vessels on which the Asiatic crews naturally understand the language of their officers.

16. *Loss of Pacific trade.*—The Seamen's Law has had the result of turning over our share of trans-Pacific shipping to the Japanese. In the Third National Foreign Trade Convention, Captain Dollar of San Francisco stated that while in November, 1914, the relation of American to Japanese tonnage in the Pacific was 45,815 net tons to 89,932 net tons, in November, 1915, American shipping had shrunk to 3,186 tons, and Japanese had increased to 141,262 tons.

Several months after the Seamen's Act was passed the *Korea* and *Siberia*, two large American ships of 18,000 tons each, the pride of the Pacific Mail Steamship Company, were sold to the International Mercantile Marine Company, at the very time when the commerce of our country was crying for ships as merchant carriers, and as naval auxiliaries, at a time when ships were scarce and could not be duplicated. The two ships were soon sold by the International Mercantile Marine Company to Japan, thereby making the transfer result in a twofold handicap in the

American struggle for the trans-Pacific trade. This sale furthermore seriously jeopardized American prestige in the East.

17. *Purchase of the Pacific Mail.*—Just before the Pacific Mail Company was about to sell its last steamer, W. R. Grace and Company, backed by the American International Corporation, bought up the small remains of its fleet in order to prevent a total loss by a firm which had established a large business and created a good name for itself. Since this change of ownership, several ships which have been purchased from the Royal Dutch West India Company, have been added to the fleet of the Pacific Mail Steamship Company. This, however, is only temporary, and due to the very high freight rates which at the present time more than compensate for the increased expenses imposed by the Seamen's Act. According to the New York *Times* of August 27, 1916, W. R. Grace and Company have given notice that a return of normal conditions will compel the discontinuance of their service unless the Seamen's Law is replaced or wisely amended.

18. *Status on the Atlantic.*—In the Atlantic matters do not stand much better, but here the causes which bring about similar results are entirely different. In 1902 a praiseworthy attempt was made to establish the Stars and Stripes on a large scale in the Atlantic trade. In that year the International Merchantile Marine Company was formed.

It was the conception of two Americans who had long

dreamed of merchant marine under the Stars and Stripes. These men were Mr. Bernard Baker of Baltimore who controlled the Atlantic Transport Line, and Mr. Clement A. Griscom of Philadelphia, who had established the American Line. They succeeded in obtaining Mr. Morgan's ear—and the formation of the International Mercantile Marine Company was the result. It operates directly only six vessels. It is mainly a holding company. Tho chartered in the United States, the ships in which it is interested sail almost exclusively under foreign flags, namely, the British, the Belgian and Dutch flags.

This corporation is the greatest item in American shipping and its creation led to one of the most interesting experiments to create an American merchant marine.

**19. British restrictions.**—The attempt to Americanize the great shipping combine led to developments that brought to light a clause in a contract between the British government and the International Mercantile Marine Company. This clause was imposed on Mr. Morgan by the British government as the price of permission to bring British shipping companies into an American combination:

No British ship in the association or any ship which may hereafter be built or otherwise acquired for any British company included in the association shall be transferred to a foreign registry without a written consent of the president of the Board of Trade, which shall not be unreasonably withheld, nor be nor remain upon a foreign registry. Nothing shall be otherwise done whereby any such ship would lose its British registry or its right to fly the British flag.

The Americans also promised that the British

government should always be represented on the Board of the International Mercantile Marine Company. This clause frustrated any attempt of the American International Corporation to Americanize the International Mercantile Marine Company.

#### REVIEW

How has the development of shipping in the coastwise trade differed from that in overseas commerce?

How does the American merchant marine compare with that of other countries?

What economic conditions are favorable to shipping growth?

Describe the Ship Registry Act and the War Risk Bureau? What effect have they had?

What was the Ship Purchase Bill and what was its fate?

What is the Seamen's Act and what has been its effect upon American shipping in the Pacific trade?

What was the purpose of forming the International Mercantile Marine Company? How does it operate and what has been its success?

## CHAPTER IX

### FUTURE OF AMERICAN AND CANADIAN SHIPPING

*1. Value of a merchant marine.*—A national merchant marine has a financial, an economic and a political value. Shipping is a source of increased national income to a maritime nation thru the freights collected from world-wide commerce, and thru greater facilities for shipment and sale of the national products abroad. The merchant marine is an indispensable instrument in the exercise of any systematic foreign trade policy, and maintains under the national flag communications with distant possessions. Finally, it aids the defense and protection of commerce during war, whether the government is belligerent or neutral.

*2. Three means of solving question of merchant marine.*—Gladstone said, "Difficulties are made to be overcome." Thus the realization of the difficulties in our way should not make us blind to the necessity and vital significance of an American merchant marine. There are not many who do not believe in such a necessity, but there is much difference of opinion in regard to the ways and means by which this necessary object can be obtained. Various remedies have been proposed for the solution of the merchant marine ques-

tion. The proposals which at present figure most prominently before the public mind may be summed up under three heads. First, government ownership; second, equalization of initial and operating costs; third, development of a national shipping policy administered thru a permanent non-partisan shipping board, and the elimination of all hampering legislation.

Of these three policies the first (namely, that of government ownership) has been turned into reality, by the passing in September, 1916, of the Shipping Bill. The question of government ownership as a remedy of the merchant marine problem should therefore be discussed first.

3. *Government ownership.*—Government ownership of means of ocean transportation is nothing new; it has been tried by the government of the Commonwealth of Australia, with disastrous results. "The Russian Volunteer Fleet" was once practically run by the government of that country. The Roumanian government owns a considerable portion of its national merchant marine. The American government owns and operates the Panama Canal Steamship Company. In all these cases such special conditions prevail or have prevailed as seem to justify the replacement by government control of private initiative; the natural agent of water transportation. Only extraordinary conditions can justify the assumption of activities which private citizens can carry on under normal circumstances.

*4. Revival of private initiative.*—Private initiative, which during the first months of the war seemed completely stunned by the violence of the blows, had not only recovered, but was exerting itself in strenuous efforts. Foreign and American shipping, completely disorganized during 1914, recovered its equilibrium. The reduction of the shipping tonnage available for international trade, caused by destruction, immobilization and impressment for government purposes made itself felt in high freight rates and traffic congestion. The tonnage available, however, was being used to its utmost capacity and its value could not have been increased by government action. The loss of destroyed tonnage could be made good only thru the building of new ships, and American ship-yards entered upon this task with such energy that the figures of ship-building in the United States have reached a height unparalleled in our history and have been only slightly excelled by one competitor namely, Great Britain.

*5. Hindrances to private initiative.*—There are those who believe that the possibility of the government entering into the steamship building and operating business backed by an appropriation of \$50,000,000 and the potential aid of the unlimited credit of the country, acts as a dead-weight on private enterprise. In fact concrete examples have been cited, showing that large steamship enterprises that had been planned by private capitalists were abandoned in the face of threatening government competition.

This feature of the Shipping Bill has met wide-

spread and strong resistance. It is claimed that it is not lack of private initiative, but official impediments, which prevent private capital from embarking energetically upon the shipping business.

American merchants and shipowners resent most deeply the insinuation of their lack of enterprise, which has been used in the arguments of those who advocate government ownership and operation. They doubt if it is fair to pass law after law obstructing the free development of American shipping, and then turn around and accuse them of not taking advantage of their opportunity.

6. *Efficiency of government ownership.*—The efficiency of the government as steamship owner and operator is seriously questioned, and the dangers of political rather than commercial management are not to be overlooked. Senator Burton in replying to Secretary McAdoo's defense of the Shipping Bill expressed the conviction that "in this country with its political jobs there will never be efficient government management until the wide shield of the Civil Service and appointment in regard to merit rests over all the governmental activities."

Another objection to government operation of merchant vessels points to the unfair discrimination in favor of or against certain ports and private shipping lines.

Any policy that regardless of the normal operations of the law of supply and demand, places at the disposal of any single class of producers a fleet of government steamers is

bound to produce privileged classes, for the government, presumably, will not provide sufficient tonnage to carry all our exports and imports, but will operate with such ships as it may supply at lower than the market rate, wherever that course may be deemed necessary for the supposed advantage of the United States export trade. How under this policy will it be determined in whose interest this necessity is most pressing? Will it be for the North, South, East or West? It will favor manufacturers or importers of raw material if the operation of government steamers involves a deficit to be met from the National Treasury; the policy will amount to the bestowal of a bounty upon the favored commodities and communities. It may likewise be asked what class of American importers will be favored in the carriage of return cargoes? Will these public vessels seek always the higher price goods at the expense of the importers of low price products, who are also subject to taxation to meet any losses sustained by unprofitable government policies?

7. *Shipping Board.*—However, the rehabilitation of the American merchant marine is only one of the purposes for which the Shipping Act provides. It establishes a United States Shipping Board for the purpose of encouraging, developing and creating a naval auxiliary and naval reserve, and furthermore proposes to regulate water carriers engaged in foreign and interstate commerce. The question of a naval auxiliary and naval reserve has already been discussed. It therefore remains to take up here that part of the Shipping Act which refers to the control thru the Shipping Board of ocean traffic and of rates and rate agreements in particular. This Shipping Board consists of five commissioners, each with a salary of \$7,500 annually. The Shipping Board has

power to do two principal things besides acquiring merchant vessels to be used as naval auxiliaries.

First, to use merchant vessels in time of peace in American commerce, either by resale or lease to private persons, or thru operation by a government controlled corporation.

Second, to regulate domestic and foreign shipping of the United States.

The Shipping Board is allowed to operate vessels by forming a corporation only if unable to get citizens of this country to operate them, after it has used all means available in a "bona fide effort" to bring it to their attention. If the Board cannot prevail upon private parties to operate on satisfactory terms it reports to the President, who is empowered to order the Board to carry on such operations. Thus it is apparent that government operation is not desired except as a last resort and only in the event of failure to induce citizens to establish or take over certain steamship services.

The Act deviates from the maritime policy followed ever since the founding of the Federal government, in that it permits government-acquired vessels of either American or foreign build, to engage in the coastwise trade of the United States, even if these vessels are transferred to private persons. The coastwise trade has always been reserved for American-built ships.

8. *Cost investigation by Board.*—Besides these duties of building up an auxiliary fleet and of operating merchant vessels in order to relieve the present

tonnage scarcity, the Shipping Board has also been authorized to investigate the relative cost of building merchant vessels, in the United States and abroad, and to ascertain what advantages or disadvantages vessels under our registry have in comparison with foreign ships. A comparison of these conditions as well as of the shipping laws of the various maritime nations is to be made the basis of a constructive shipping policy. Such an investigation should have favorable results, and lead to the liberation of American shipping from incumbrances which today impede its free development.

9. *Regulatory powers.*—The Board is expected to create for ocean transportation the same standard of fair competition which the Interstate Commerce Commission assures to railroad transportation. For that purpose the Board is to determine what is "fair" and "reasonable" in rates and services.

Some specific practices are considered unlawful, such as the employment of "fighting" ships (vessels used to reduce or prevent competition), and the practice of deferred rebates and of discrimination in favor of large shippers in the matter of cargo space, rates, services and the settlement of claims. These practices are forbidden. Unfair discrimination among kinds of traffic and among places is declared illegal. This should assure to American shippers that parity of rates to neutral markets from Europe and from America which in the past has been a leading feature of the international rate structure.

**10. *Value of Board.***—There are some who doubt that it will be possible to exercise successfully the regulatory powers of the Board, but there are few who do not believe that, if ably administered, the Shipping Board should be a great aid to our merchant marine in regaining the position of leadership it held prior to the Civil War. It seems, however, a rather widespread sentiment among those in close contact with maritime affairs, that careful investigation of the prevailing legal and economic conditions surrounding the American merchant marine can lead to only one conclusion and that this conclusion may not be welcome to the Shipping Board. This conclusion is that the American merchant marine can be built up successfully only after the legal barriers that now hem in its free development are torn down, and when economic conditions, reflected in the higher American wage scale, are taken into due consideration.

**11. *Advantages and disadvantages of subsidies.***—The question of subsidies has long been before the American public and has formed the center of discussion before large bodies of business men. The arguments in favor of and against steamship subsidies have been clearly stated in summary form in a report of the special committee of the United States Chamber of Commerce on the up-building of the merchant marine. The report reads as follows:

Advocates of subsidies to offset the excess in cost of operation under the American flag urge that in order to avoid loss to American shippers thru lack of steamers and

thru increases in rates when other nations go to war it is essential to have a large merchant fleet under the American flag, and that such a fleet is possible only if the cost of operation which is enhanced by regulations of the United States and by high wages is equalized by payments from the Government proportioned to these requirements as compared with the requirements of other countries for their merchant vessels. Even in times of peace, it is argued, there is an advantage to American trade and industry in having American goods delivered in foreign ports by American vessels in that American shipping under the American flag serves in itself to draw foreign trade to the United States and the foreign carrier sometimes does and will always have a tendency to discriminate against American cargoes in favor of the commerce of his own country. Payments from the public treasury are advocated on the ground that it is partly requirements of the Government that make the cost of operation under the American flag higher than under flags of competing nations, coupled with the desire, which receives general support, to maintain American standards of living conditions and wages for American seamen, and because the advantage of having an American merchant marine of adequate size accrues to all industry and business, inland as well as on the seaboard.

Opponents maintain that a provision for subsidies will be special legislation for the peculiar advantage of a relatively small class of persons engaged in overseas shipping or in foreign trade. Thus, they either deny that there would be a national advantage or insist that the benefits to industries and businesses not directly connected with ownership and operation of merchant vessels would be so proportionately slight as not to warrant payments from public funds. They maintain further that transportation by sea has become an international business in which the nationality of merchant vessels has little significance in time of peace and that there should be no external interference with the competitive situation in which vessels operating at the lowest cost may, regardless of their nationality, obtain shipments. It has been

suggested also that if foreign governments find advantage in subsidies which they now pay they will maintain this advantage by increasing their payments proportionately with any payments made by the United States.

12. *Merchant marine essential.*—In the present economic condition of this country a merchant marine becomes an essential instrument without which the United States cannot profit from its opportunities, nor fulfil its duties toward the world, but this instrument cannot at present be secured because of legal obstacles and because American standards of wages are higher than Asiatic and European standards. Since it cannot be expected that the world standard will be raised to the American standard, and since it is undesirable, to say the least, to lower the American standard to the world standard, there remain only two alternatives—either to offset the difference by subsidies or other direct or indirect aid, equivalent to subsidies; or else to resign ourselves to the fate of a nation of landlubbers. The latter course means stagnation and retrogression. If this country wants a merchant marine and at the same time must pay American wages to American sailors, and if it insists upon stricter regulation of American shipping than is enforced by any other maritime nations, it must draw the conclusion that the two ends can be attained only thru equalization of cost of operating American and foreign vessels.

13. *American preference for inland occupation.*—It is a serious and important question to what extent

economic conditions in this country have changed or are about to change so as to render the manning of American merchant ships with American officers any less difficult today than it has been in the past. Authorities who are so situated as to judge this matter intelligently see in this difficulty one of the greatest obstacles in the way of the development of an American merchant marine. The countries of Europe, with their dense populations and intensely developed, overcrowded industries, do not find it difficult to man their merchant marine. Men are driven to the sea. In large strata of the population, tradition makes the seaman's life appear as the only proper future occupation of the younger generation. If the same held true here, the merchant marine of the United States would prosper in the foreign trade without strong subsidies. But the economic conditions which sent the men of England, Germany, the Netherlands, Sweden and Norway to the sea, sent the men of the United States to the mountains, the forests, the soil; the wealth of the land. The vistas of Cathay and the Indies which spurred the men of the old world to launch their ships and sail westward, were here vistas of the Yukon, California, coal, iron, gold.

14. *Risks and profits of steamship business.*—Capital in the United States is more apt to seek occupation in inland industries than in ocean navigation. It is to be expected that gradually a change in the general economic and social conditions prevailing in the United States will equalize the rela-

tion of capital to shipping, in this country and in the maritime nations of Europe, so that, as far as capital is concerned, there will be no permanent and insurmountable difficulty in building up a merchant marine.

15. *Public opinion.*—The people of our Atlantic and Pacific states, as well as the leading business men thruout the country, are as one in their conviction that an American merchant marine is an instrument indispensable in our effort to win our share of the trade of the world, but in this country a strong national policy should have the backing of all the people. Elihu Root has said, "The scepter has passed from big business to the proletariat." The great masses of the people have become the real lawmakers, and until the population not only of the seaboard, but also of the inland states, fully realizes the deplorable condition of American ocean shipping and the urgent need of bringing about a complete change of this situation, the time for adopting such a policy has not yet come.

This is clearly recognized by P. H. W. Ross, President of the Marine League of the United States of America. His work is devoted to this awakening of the masses of the people, to bringing into direct contact with maritime matters even those who live hundreds of miles from the seaboard. Today at least 70 per cent of the people of the United States who elect Congressmen and who influence their votes are entirely out of touch with maritime matters. A merchant marine means little to them and Con-

gressmen reflect the attitude of their constituents. Open the eyes of the great masses of the American people to the need of a merchant marine and its realization will not be far off, for here more than anywhere else the people's word is supreme law.

16. *Present role of Canadian Shipping.*—On December 31, 1914, the tonnage of all vessels on the registry books of the Dominion stood at 932,422. Included in this total were 4,054 steam vessels with a tonnage of 744,783. Twenty years earlier Canada ranked fifth place among the great maritime nations of the world; in 1914, she came in tenth place.

While even this is a fairly respectable showing considering the population of Canada, yet her vessels played a very minor role in the total carrying-trade of the world, or indeed in that of Canada herself. Roughly, the same small percentage represents for both Canada and the United States the extent to which their own ships participate in the transporting of their own exports and imports. For the period 1900-1914 Canadian vessels carried on an average only about 10 per cent of Canada's imports by sea, and about 12 per cent of Canada's overseas exports. The most recent estimate is that Canada's freight bill paid to foreign countries during this same period was \$60,000,000.

17. *The lake fleet.*—The above figures include vessels engaged in the coasting and inland trade as well as in the overseas trade. It has been already explained that the coasting trade of Canada is open to

all British ships, unless they are foreign-built British ships, in which case a license must be secured and a duty of 25 per cent paid. It is also open to certain foreign ships under treaty rights, and may be thrown open at any time to the ships of any nation which grants similar privileges to Canadian vessels.

For the fiscal year 1913-14 there were on the inland waters above Montreal 265 British and Canadian vessels with a gross tonnage of 810,176, nearly all of which was Canadian. The Canadian fleet here comes into competition with the mercantile fleet of the United States on the Great Lakes. Actual and open competition, however, is restricted by the coasting laws of both countries to only that part of the traffic which passes, or which can be made to pass, from a port in one country directly to a port in the other, either because the goods so shipped are designed for consumption in the latter country, or can pass in transit thru that country on favorable terms. In comparison with the United States fleet the Canadian mercantile fleet is, of course, small; but it has been steadily growing and in the typical year 1913 of the strictly competitive traffic it secured somewhat the larger share in proportion to the relative carrying capacities of the two fleets. This inland fleet, therefore, presents no particular problem for Canada. The Dominion may note perhaps that after the war there will be as great a scarcity of tonnage on the lakes as on the ocean. Over 100 vessels have so far been transferred from the lakes to the ocean service,

and at present only three lake vessels are being built in Canadian yards.

18. *Seagoing coasting trade.*—In the seagoing coasting trade, one point needs to be noted. In the calendar year 1916, there were transferred from the Canadian Register 42 vessels with an aggregate tonnage of 25,834. The chief cause of this transference was what was claimed to be an unfair provision in the Canadian Shipping Act, requiring coasting vessels of over 100 tons burdens to carry certificated masters and mates. No such conditions were exacted by the legislation of Newfoundland, Barbadoes, United Kingdom, etc., and the tendency was becoming general to seek registry under another country. The United States in addition now afforded a refuge, as the old law against registering foreign ships had been repealed, and in this same year 14 Canadian ships were secured.

This condition led to a considerable demand in Canada for the enlargement of the area for which coasting certificates were issued. The earlier law restricted a coasting voyage roughly to a voyage between any port in Canada and any port in America on either coast north of 5 degrees north latitude. As in normal pre-war years this coasting trade was proving barely profitable, and as it was desired to enter the more remunerative coasting trade of South America, an amendment was passed in 1915, extending the southern limit of a coasting voyage to 40

degrees south latitude. This amendment will, it is hoped, tend to check the loss of Canadian ships from the Canadian register.

19. *Dry docks and the dry docks subsidy policy.*—One of the ways in which Canada has encouraged this industry has been by the building and subsidizing of dry docks. Under the Act passed in 1910, dry docks are divided into three classes according to size and cost—varying from 400 foot length, 8,500 ton lifting power and under one and a half million dollar to 900 foot length, 25,000 ton lifting power and four million dollar cost—and subsidies are paid in each case of from 3 to  $3\frac{1}{2}$  per cent of the cost of construction for from 20 to 35 years. Plans of course must be approved and construction supervised by government engineers. As a result there has been a rapid extension of such ship-building and ship-repairing facilities in Canada.

On the Great Lakes where, for a number of years, many large modern vessels have been turned out, there are dry dock facilities at Toronto, Collingwood and Port Arthur. At present the largest dry dock on the Great Lakes is the one at Port Arthur, which has a usable length of 679 feet. Extension of the facilities at Halifax, St. John and Quebec is now taking place on a large scale. At Sydney, the hub of the iron and steel industry in Nova Scotia, a strong company headed by Sir Henry Pellatt and backed by British capital was formed a few years

ago to build a large dry dock and shipbuilding establishment, but no steps have since been taken other than to secure a large bonus from the city.

On the Pacific Coast where shipbuilding has received an impetus in the last few years owing to the rapid development of British Columbia, several large docks have been built or projected. The government dry dock at Esquimalt has a usable length of 430 feet. At Vancouver, a dock of 550 foot length and 15,000 tons lifting capacity which has been projected for some years is now in process of construction, while at Prince Rupert the Grand Trunk Railway is building a still larger floating dock with a length capacity of 600 feet and a lifting capacity of 20,000 tons.

Finally the most modern and largest floating steel dry dock in Canada today is that owned by, and operated in connection with a shipyard and repair plant of the Canadian Vickers, Limited, Montreal. With a length of 600 feet and a lifting capacity of 25,000 tons, it has already proved of great service, especially during the present war.

20. *Another form of government aid.*—The Canadian government also makes use of another typical method of state-aid to shipping, that of postal subventions. Each year over two and a half million dollars are paid to various steamship companies for the transportation of mails on certain definite routes, especially between Canada and the mother-country or other parts of the Empire. The objects are to provide regular and more rapid service, to encourage as

many direct sailings from Canadian ports as possible and, as a consequence, to foster Canadian trade. In some cases it is provided that the rates from Canadian ports to England shall not exceed those from New York, and that discrimination shall not be made against Canadian merchants or shippers, or against immigrants to Canada or against any Canadian port.

Tho two thirds of the officers and crew must be British subjects, there is no provision requiring the ships to be Canadian built. Instead, then, of directly aiding the shipbuilding industry, these subventions have an indirect influence only, increasing the tonnage calling at Canadian ports and making shipping more profitable thru the building up of Canadian trade.

21. *Discrimination against a Canadian marine.*—It is claimed that one result of recent legislation is to make Canadian owners pay more than foreigners for Canadian-built tonnage. Material entering into the construction of a Canadian vessel is subject to duties varying from  $27\frac{1}{2}$  to  $37\frac{1}{2}$  per cent for the heavier, and to higher rates for special and lighter parts. The present drawback in the case of vessels built for Canada is 65 cents per gross ton for non-classed craft, 75 cents for ships classed for 7 years, 85 cents for ships classed for 9 years, and \$1.15 for the fifteen year class. The effect of these drawbacks, it is claimed by builders, is insignificant, and certainly not enough to offset the advantage given to foreign owners by the new order which enables a vessel to be

built in Canada for a foreigner at a lower cost than for a Canadian. Especially is this felt to be a hardship at the present time when an attempt is being made to establish a nucleus for a larger ocean-going Canadian merchant marine.

It is to be noted also that at present British-built vessels plying the Great Lakes in competition with the Canadian built boats retain British registration, and thus come into Canada practically duty free. On the other hand if the same vessels were bought by Canadians and entered in Canada a duty of 25 per cent on the hull, rigging, machinery, etc., would have to be paid.

*22. Proposals of the Dominion government.*— Apart from the dry dock subsidies, the postal subventions and the drawback regulations previously mentioned, no definite steps have been taken by the government at Ottawa to build up a Canadian mercantile marine.

In April, 1916, the Minister of Trade and Commerce gave to Parliament a comprehensive review of the whole subject and asked for suggestions from all parties in the House. Outlining the causes which had given rise to the serious scarcity of tonnage he showed how it had been impossible for the government to solve the problem by chartering vessels or by controlling rates. Increasing the tonnage was the only solution of the emergency problem and that took time. It was even more important that shipbuilding in Canada should be put on a permanent basis.

**23. Suggested form of government aid.**—The minister stated: (1) that a country of such large and increasing productive capacity as Canada occupies an undesirable position if it does not have a very considerable commercial tonnage for its own use; (2) that commercial tonnage taken year in and year out is a profitable investment for a country; and (3) that the matter could not be left entirely to corporate and private enterprise.

He then outlined three possible forms of government aid, condemning the tonnage construction subsidy policy and the policy adopted recently by the United States, and tending to favor for Canada a scheme similar to that proposed by the Chamber of Commerce of New York for the United States. This scheme it will be remembered proposed to set up a commission exercising general oversight over the vessels to be built under the plan, and having power to enter into contracts with builders of ships under which the latter would be allowed the difference between the cost of construction in Canada and in European ports. Also to enter into contracts with shipowners, when the ships were built, guaranteeing them during the life of the ship the difference in cost of operation under the Canadian and under an European flag.

**24. Other proposals.**—This statement by a member of the government looked promising. But the matter dropped and nothing was done.

A few months later another Cabinet minister sug-

gested in an interview that the probable solution of the problem of securing a direct service between British Columbia and the Canadian Atlantic ports which the people of the former province so earnestly desired was for the Dominion government to order the building of two suitable vessels in British Columbia and then place these public-owned steamers on this route. This has not been done. Unofficial statements have been made that after the European war the Dominion government would establish a state-owned line of trans-Atlantic steamers. Such a scheme will doubtless find strong support from some members of the government. Much depends upon the report of the commission now investigating the Canadian railway situation.

#### REVIEW

State the financial advantage to a country of a merchant marine.

How far does the Shipping Act commit us to government operation?

Describe the investigating and regulatory powers of the Shipping Board.

Outline the history of Canadian shipping. Discuss the present role played by the Canadian merchant marine in both coasting and overseas trade.

What encouragement does the Dominion government give to Canadian shipping?

What proposals for a national shipping policy have been made?

# INDEX

- Agents,**  
Commission, 104-06; Forwarding, 106-07; Foreign, 117-18; Manufacturers', 122; Del Credere, 106; And early merchants, 111; In export trade, 152
- American Exporters,**  
European war, 128-29; Of copper, 129  
*See* Foreign Trade, Cooperation in American International Terminal Corporation, 303-04
- Americas, The.** *See* Banks
- Anti-Trust Laws,**  
Objections to, 142; And foreign trade, 144-45
- Argentine, Grain Exports,** 265-66
- Australia,**  
Marking goods for, 169; Commonwealth Commerce Act, 169-70; Invoices, 171; "Non-dumping" certificates, 191
- Balance of Trade, Favorable,** 7-8
- Banks,**  
Source of promotion, 88-84; Branches, 88-89; Federal Reserve, 88-91; International Banking Corporation, 89; Foreign trade of Canadian, 95  
*See* Foreign Trade
- Berth Cargo,** 240-41
- Bethlehem Steel Corporation,**  
*See* Iron Ore
- Bill of Lading,**  
Foreign, 174-75; Railroad, 175-76; Canada, 177; "London Clause Charge," 178; Export declaration, 182-83; Pomerene Act, 184; When obtainable, 184-85; Consignee, 185; Negotiability, 185-86; "Foul or clean," 186; "Letter of indemnity," 186; Railroad and ocean, 249
- Bill of Lading Act,** 177
- Board of Trade,** *See* Trade Information
- Boas, H. A.**, 268
- Bond, Goods in,** 183-84
- Boyd, William,** 198-99
- Brazil, Consular Invoice for,** 188-91
- Britain, Great,**  
Ship measurement, 205-6; Load line, 206; Freight rates, 256; Coal exports, 264-65; Raw materials, 300-1; Subsidies, 313
- British Board of Trade,** 254
- British Royal Commission on Shipping Rings,** 287
- British Sales of Goods Act,** 151-52  
"British Shipping," 256
- Brussels Convention,** *See* Sugar Bureau,  
Of Navigation, 63; Of Lighthouses, 64; Of Foreign and Domestic Commerce, 65; Brussels International Customs, 69; Foreign Trade, 85-86; Of Standards, 169  
*See* Trade Information
- Business, American,** *See* Foreign Policy of the United States  
"Business and the Government," *See* Trade Information
- Canada,**  
Foreign trade and, 79-80; Railways, 97, 306; Exporting methods, 123-24; Commission houses, 124; Canadian Customs Act, 184n; Sail vs. steam, 215n; Coasting trade, 216; Privately owned lines, 238n; Ocean freight rates, 254n; Ship combinations, 288-89; Drayton, Sir Harry, 289; Investigation Commission, 289; Proposed freeport, 303n; Ports, 305; Montreal, 305-06; Pacific ports, 307; St. Johns and Halifax, 308
- Canadian Shipping,**  
Present status, 340; Lake fleet, 341; Tonnage, 341; Growth, 341; Coasting trade, 342; Drydocks, 343; Pacific, 344; Government aid, 344-47; Restrictions, 345-46; Export Association, 347
- Canadian Shipping Act,** *See* Government
- Canadian Trade,**  
Former isolation, 20; Commercial

- Canadian Trade**—continued  
 policy, 21–22; Character, 22–23; Early stage, 23–24; Reversal in balance, 24–25; Creditor nation, 25–26; Increased production needed, 26–27; Raw materials and food stuffs, 27–30; Manufacturing, 20–31; Competition, 31–32; Promotion of, 32–34  
*See Foreign Trade*
- Canadian Trade Commissions**, *See Canada*
- Cargo**,  
 Tramp, 224–25; Cost of carrying, 225; Mixed, 225; Lots, 240; Berth, 241; Rate-making, 267–68
- Cargo Ton, Weight and Measurement**, 205
- Carriers, Ocean**,  
 Development, 218; Restrictions on certain routes, 218–14; Reasons for growth in size, 214–15; Coal combustion, 215; Engine development, 215; Steam vs. sail, 215–16; Diesel engines, 217–18; Oil burners, 217; Wooden, replaced by iron and steel, 219; Classification by service, 220; Tramps distinguished from liners, 220–23; Commission on Shipping Rings, 221–22  
*See Liners, Tramp Steamers*
- Carriers, Private**,  
 Merchant, 228–29; Changes in type, 229–30; Chartering, 230; Renaissance, 230; Corporation owned, 231; Examples, 231–32; United States Steel Corporation, 231–32; United Fruit, 232–33; Canada, 238n; Merchants', 234–35; Oil trade, 234–35; Pacific Mail, 235; Pacific Ocean, 235–36; Railroad-steamship lines, 235–36
- Carriers, Public**, Development of, 229–30
- Cash Discounts**, 152–58
- Certificates**,  
 Custom House, 182–88; Of Origin, 191; ‘‘Non-dumping,’’ 191
- Chamber of Commerce, United States**, 200–01, 285–87
- Chartering**,  
 Reasons for, 280; Continental, markets, 242–43; Great Britain, 248; Typical operation, 243–45; Smith, R. J., 244–45; Ports of destination, 245; U. K. H. H. range, 246; Negotiations, 246–47; Exchanges, 246; Parties,
- Chartering**—continued  
 247–48; Ship-brokers, 247; Trip and time, 247; Rates, 253; Fluctuations, 258; Marginal rate, 259; New York and other Atlantic ports, 247–48; Clapp, E. J., 297
- China**, Coal fields, 40  
*See International Trade, World Trade*
- Civil War, American Merchant Marine**, 818
- Clapp, E. J.**, 290, 297, 322
- Clayton Law**, 144
- Clearance Papers**, 208–10
- Coal**,  
 Consumption, and high speed, 238; British exports, 264–65; United States exports, 265–66
- Coal Trade**,  
 China, 40; International, 41; English, 42; German, 43; Future of, 44
- Coastwise Shipping**,  
 Canada, 216, 342; United States, 217, 310–11
- Coffee**,  
 Soil exhaustion, 58; Importation, 59; Valorization, 59
- Combinations, Ship**,  
 Tramps, 274–76; Sailing Ship Owners, 275; Baltic and White Sea Conference, 276; Liners, 276; Steamship agreements, 278; Importance, in U. S., 279; South American trade, 279–80; Conferences and pools, 280–81; Shipping investigation, 285; Monopolistic nature, 285; Shippers' objections to, 286–87; Deferred rates, 286; Canada, 288–89
- Commerce**,  
 Vanderlip, F. A., 77; University, 77–78; Philadelphia Commercial Museum, 80–81; Government and, 93
- Commission House**,  
 Position, 112–13; Definition, 113; As Merchant, 113–14; Advantages, 114–16; And Exporting manufacturers, 116–17; And Foreign agents, 117–18; Field, 118–19; Services, 110; Limitations, 120; Canada, 124
- Commission on Shipping Rings, Royal**, 221–22
- Commonwealth Commerce Act**, 169
- Competition**,  
 Freight rates, 261, 269–70; Franklin, P. A., 278; Regulated vs.

- Competition**—continued  
 wild, 278; Hardy, Rufus, 278;  
 Government investigation, 278–  
 74
- Conferences, Steamship.**  
*Advantages*, 282–85; Huebner, S. S.,  
 282–83; Rate wars, 283–84; Com-  
 petition, 283–85; Economics, 284;  
 British Royal Commission, 287;  
 New lines, 287–88
- See* Combinations, Ship
- Consular Invoices**, 187–91
- Cotton,**  
 Spinning industry, 54; World's  
 consumption, 54; Growth of ex-  
 port trade in, 55
- Creditor Nation, A. Becoming**, 8  
*See* Canadian Trade
- Cubical Capacity, Of Vessels**, 208–04
- Custom House,**  
 Making shipments thru, 179 et seq.;  
 Export declaration, 182–83; Mani-  
 fest, 211
- Customers, Foreign,**  
 Getting order, 150; Samples to,  
 150–52; Cash discounts, 152–58
- Dead Weight Tonnage**, 201–02, 206–  
 07
- Declaration of London**, 196
- Delivery, and prices**, 158
- Diesel Engine**, 217–18
- Differences,**  
 Racial, 87; Climatic, 87–88; Elim-  
 inated 88; Stage of economic de-  
 velopment, 88; Natural resources,  
 89
- Displacement tonnage**, 201
- Discounts, Cash**, *See* Cash Discounts
- Dollar, Captain Robert**, 206
- "Dumping, Non-," Certificates of**, 191
- Economic and Development Commis-  
 sion**, *See* Foreign Trade
- Emergency Act**, 821
- Engine,**  
 Development of ship, 215; Diesel,  
 217–18; Oil-burning, 217–18
- England, "Splendid Isolation" of**, 4
- Entrepot**, *See* Transshipment
- European War,**  
 Commercial interdependence, 4;  
 Foreign trade, 5; Tax burden in  
 Canada, 12; Small manufacturers,  
 181–32; Need for cooperation  
 after, 187; Commerce and indus-  
 try 187; Competition after, 148;  
 Freight rates, 256, 270–71; Amer-  
 ican Merchant Marine, 318–19
- Export Association of Canada**, *See*  
 Export Trade
- Export Trade,**  
 Protects domestic, 18; Federal Re-  
 serve Act, 15; Webb Bill, 16;  
 Pan-American Conference, 17;  
 Vanderlip, F. A., 18–19; Canada  
 and U. S., 20; United Kingdom,  
 23; Increase, 24; Food stuffs and  
 raw materials, 27; Forces pro  
 and con, 30; Branch factories,  
 32; Associations formed for, 33;  
 Ottawa, 33; Cotton, 55
- Export Trade, Technic of,**  
 Indents, 150, 164–65; Receipt of  
 order, 150, 165–66; Samples,  
 150–52; Price policy, 152;  
 Agents, 152; Cash discounts,  
 152–58; Price quotations, 152  
 et seq.; Typical sales contract,  
 156 et seq.; Packing goods, 167–  
 68; Marking goods, 169–70;  
 Weights and measures, 159; In-  
 voicing, 170–72; Statement of  
 charges, 172; Certificates, 173,  
 191; Bill of lading, 174–75; In-  
 land transportation, 174; Canada,  
 177–78; "London Clause  
 Charge," 177; Shipments, 178–  
 80; Necessary documents, 179–  
 81; Custom Houses, 180–81; Ex-  
 port declaration, 182–83; Steam-  
 ship bill of lading, 184 et seq.;  
 Consular invoices, 187–88; Fed-  
 eral Trade Commission, 187;  
 South America, 187; Australia,  
 191
- Exporting Methods,**  
 Foreign trade, 99; Direct and in-  
 direct, 100; Marketing, 102;  
 Salesmen, 103–04; Commission  
 agents, 104–06; Freight brokers,  
 107; Parcel post, 107–09; Mid-  
 dleman, 110–11; Commission  
 house, 112 et seq.; Merchant sys-  
 tem, 120–22; Canada, 128–24
- Exports,**  
 European war, 5, 7–8; Manufac-  
 tured goods, 5–7; Raw materials,  
 5, 9–10; Wheat, 5, 10; Four  
 steps in evolution, 6; Creditor  
 nation, 8; Reason for stimulation,  
 8–9; Approximate tonnage, 288–  
 39
- Express Companies**, *See* Foreign Trade
- Far East**, *See* Commission Houses
- Farrell, J. J.**, 74–75
- Federal Reserve Act**, 15, 88–92, 300

- Federal Trade Commission**, 126-28, 181-82, 187  
**Franklin, P. A.**, 274  
**Free Trade**, *See* International Trade  
**Foreign Policy of the United States**, Washington, George, 8; Monroe Doctrine, 8; Isolation, 4-5; Economic basis, 4; European War, 4; Growth, 4; International interdependence, 4  
**Foreign Trade**, Individual venture, 4; Limits, 4; Need for policy, 11; Industries, 12; Farrell, J. J., 18; Internal power, 18; Underwood, Oscar W., 18-14; Ideal opportunity, 14-16; Aid to expansion, 16-17; Need of science, 17-19; Panama Canal, 15; Canada, 22-28; Raw material, 22; Manufactures, 22; Extension, 33-34; Training for, 78; Career in, 74; Languages, 76; Kies, W. S., 77, 141; National City Bank, 77-78; Canada, 79-80; Credit, 82; Express companies, 82-88; Banks, 83-84; Bureau, 85-86; Railroads, 96-97  
**Foreign Trade, Cooperation in**, Need of, 125-26; European methods, 126-28; European War, 128, 187; American copper, 129; German, 129-31; Advantages, 181-83; Forms, 184; Cartels and syndicates, 184-86; Policies, 186-87; Organization, 142; Legislation needed, 143; Exemption, 143-44; Clayton Law, 144-45; Federal Trade Commission, 145-46; Canada, 147-48  
**Foreign Trade, Elements of**, World trade, 36; International, 37; Development, 37-39; Natural resources, 39-40; Coal, 41 et seq.; German, 43; British, 43; Grain, 45-47; Sugar, 56-57; Coffee, 58-59; Rubber, 60-61  
**Foreign Trade of United States**, Necessity, 5; European War, 5, 7-8; Increased exports, 5; Manufactured goods, 5-6, 9-10; Favorable balance, 7-8; Statistics, 240; New York, 294-95  
**Forests**, *See* Trade Policy  
**France**, Subsidies to Sailing Vessels, 275-76  
**Freedom of the Seas**, Recognition, 195-96; International law, 195-96; Grey, Sir Edward, 196-97; Hague Conference, 196-97; Economic law and, 197; Boyd,
- Freedom of the Seas—continued**  
William, 198-99; Guaranties, 200-01  
**Freeports**, Hamburg, 301; Hongkong, 301; Proposed in U. S. and Canada, 302  
**Freight**, Low grade, carried by tramp, 224  
**Freighter**, *See* Liners, Tramp Steamers  
**Freight Broker**, *See* Exporting Methods  
**Freight Charges**, and Kinds of Tons, 205  
**Freight Rates, Ocean**, Growth in size of tonnage, 238-39; Charter and liner, 253, 258-60; vs. Land rates, 258; Reasons for low, 254; Canada, 254n; British Board of Trade, 255; Fluctuations, 255-58; British, inward and outward, 256; European War, 256, 270-71; "British Shipping," 257; Marginal, 259; Cost of operation, 260; Competition, 261-68; Knot time, 261, 269; Sherman, L. K., 261, 267-68; Johnson, E. R., 261-62; Schwerin, R. P., 262; Pacific ocean, 263; Standards of Japan, 263; Load factors, 264; U. S. and British coal exports, 264-66; Argentine grain, 265-66; Triangular voyages, 266-67; Mixed cargoes, 267; Boas, H. A., 268; Effect of tramps, 269-70; Quotations, 269-70; Husbner, S. S., 270; Conferences, 282-84; Rate wars, 283-84; Shipping Board, 334  
**Freight Service, Ocean**, 238  
**Freight Traffic**, United States, 240; Cargo lots, 240-41; Evolution, 240-41; Berth cargo, 241; Liner, 242, 248-49; Charter market, 242-43; Continental ports, 243-44; Great Britain, 243; Forwarders and sea-board brokers, 249; Steamship agents, 250; Transshipment, 250-52  
*See* Charter Business, Liners  
**German Cartels**, 184-87  
**Germany**, Bismarck's view of colonies, 4; Raw materials exported, 10

- Goods.** Packing, 167-68; Marking, 169-70; Commonwealth Commerce Act, 169; Weights and measures, 169; Payment, 172-78; Inland transportation, 174; Bill of lading, 175 et seq.; Making shipment, 179-80; Custom House, 180-81; In Bond, 183-84
- Government,** And Trade, 62; Taxes, 62; Shipping, 63; Canadian Shipping Act, 65; Consular reports, 67; British, aid, 68-70; Department of Trade and Commerce, 70; German service, 70; Prussian and German potash, 129; Investigations, 278; U. S. and Great Britain, 273-74; Ownership, 329, 381
- Grains,** Cargoes, and New York, 297; Baltimore and Philadelphia, 297-98; "Railway Traffic," 298
- Grey, Sir Edward,** 196-97
- Hague Conference,** 196-97
- Hardy, Rufus,** 278
- Hongkong,** a Freeport, 308
- Huebner, S. S.,** 270, 282-83
- Immigration Traffic,** 282
- Imports, Approximate Tonnage,** 238-39
- Indent, The,** Reason for, 150; Contents, 164-65; Open or closed, 164; Course, 165; Copies, 165; Order, 165-66; Form, 166
- Indirect Exporting,** 106-10
- Industries and Foreign Trade,** 12
- International High Commission,** 169
- International Mercantile Marine,** 274, 325-26
- International Trade,** Causes, 87; Transportation, 87; Free Trade, 89; Coal, 41 et seq.; Iron ore, 44; Grains, 45-51; Banana, 52; Potato, 52; Cotton, 53-55; Tobacco, 56-57; Sugar, 57; Rubber, 60-61
- Investments,** Foreign, 92-93; British, 93; Canada's foreign, 96-97; Canadian railways, 97
- Invoices,** Low, 170; Export differs from domestic, 171-72; Consular, 187-88
- Iron Ore,** And Industrial civilization, 44; Bethlehem Steel, 44
- Japan, Freight Rates,** 268
- Johnson, Emory E.,** 261-62, 292
- Kies, W. S.,** 77
- Knot Time,** 261
- Labels for Goods,** 169-70
- Land Transportation, and Ocean,** 199-200
- Law, International,** 195 et seq.
- Liners,** Freight rate policy, 207; Distinguished from tramps, 220-21; Advantages of, 225; Corporation owned, 231-34; Rates, 258, 259; Effect of tramps, 269; Combinations, 276-77; Rate cutting and rate wars, 277
- Liner Traffic,** Intricacy, 248; Large shippers, 248; Rate sheets, 248; Contracts, 249
- Lloyd's,** 208, 247
- Load Factors,** 263-64
- Load Line,** 206-07
- Loans,** Canada and Great Britain, 28; United States, 28
- London, Transhipment at,** 298
- "London Clause Charge,"** 177-78
- Manifest,** 211
- Manufacturers and Manufactures,** Exports, 5-6, 9, 30; Competition, 31; Opportunity, 31; Handicapped, 131-33; Cooperation, 133-34; Combination, 144
- Market,** English discount, 91-92; Export, and Canadian banks, 96
- Marketing Policy,** *See* Policy
- Martin, M. M.,** 208
- Measurement of Ships,** 203 et seq.
- "Merchandise Marks,"** 169
- Merchant,** Agents, 111-12; System, 120-22; Export, 120; German, 121; British, 122
- Merchant Carriers,** 228-29
- Merchant Marine, American,** Coastwise, 310-11; Present status, 310; Importance, 311; Begin-

- Merchant Marine, American**—cont'd.  
 nings, 312; Later development, 312–13; War of 1812, 312; British subsidies, 313; Civil War, 313; Recent tendencies, 313–14; Compared to foreign, 314–15; Decline, 314; New interest, 316–17; Steel industry, 316; Adverse conditions, 317; Congress, 318; European War, 318–19; Panama Canal Act, 318; Emergency Act, 311; Ship Purchase Bill, 321–22; War Risk Bureau, 321; Clapp, E. J., 322; Seamen's Law, 322; Dollar, Captain Robert, 323–24; Loss of Pacific, 323; Pacific Mail Co., 324; International Mercantile Marine Company, 325–26; British restrictions, 326; Solution, 328–29; Value, 328; Government ownership, 329; Private initiative, 330; Shipping Bill, 330–32; Shipping Board, 332–36; Essential points, 337; Investment, 338; Public opinion, 338; Ross, P. H. W., 339
- Metric System**, 205
- Middleman**,  
 Position, 110–11; Elimination, 118
- Monroe Doctrine**, 1
- Montreal**, Importance of, 305–07
- Moorsom System**, 208–04
- National City Bank**, 77–79
- Natural Resources**,  
 Differences in, 39–40; China and coal, 40; Development, 40–41; Effect on world trade, 40–41
- New York City**,  
 Value as a port, 293–94; Predominance, 294–95; Hinterland, 295–96; Railroad facilities, 296–97; Steamship lines, 297; Transshipment trade, 299–300; Federal Reserve Act, 300; Decentralization of industries, 308
- Ocean Carriers**, *See* Carriers, Ocean
- Ocean Transportation**,  
 Freedom of the seas, 195 et seq.; Differs from land, 199–200; Capital outlay for, 200
- Oil-burning Vessels**, 217–18
- Order, The**, 166
- Organizations**,  
 Legal status, 142; Sherman Act, 142; Need of legislation, 143; Compulsory, 144
- Ottawa**, *See* Export Trade
- Pacific Mail Steamship Line**,  
 Oil-burners, 218; Merchants' line, 235; Panama Canal, 237; Purchase of, 324
- Pacific Marine Review**, 206
- Pacific Ocean**,  
 Railroad-steamship lines, 235–36; Freight rates, 268
- Packing goods**,  
 Climatic conditions, 167; Economy, 167–68; Regard for prejudice, 168; Kind and color of package, 169
- Panama Canal**, Aid to Foreign Trade, 15
- Panama Canal Act**, 318
- Pan-American Conference**, *See* Export Trade
- Panics, Domestic**, 18  
*See* Export Trade, Foreign Trade
- Petroleum**, Private lines for, 234
- Plimsoll Line**, 207
- Policy**,  
 Free trade, 39; Rheinisch-Westphalian Coal Syndicate, 43; Marketing, 102; German export, 136; Control of cartels, 137
- Pools**,  
 Conferences and, 280; Administration, 281–82; Definition, 281; Kinds of trades, 281–82; Fairness, 282; Immigrant traffic, 282
- Pomerene Act**, 184
- Ports**,  
 Clapp, E. J., 290, 297; Nature and functions of a, 290; Four classes, 292; Johnson, E. R., 292; Value, 292; Sea and River, 293; Hamburg, London and New York, 293–94; New York, 293 et seq.; Atlantic, 297; Baltimore and Philadelphia, 298; Freeports, 300–02; Canada, 306
- Post, Parcel**, 107–09
- Prices**,  
 According to delivery, 153 et seq.; Cash discounts, 152–53; Policy of, 152–53; Quotations, 153–54; Typical sales contract, 156 et seq.
- Promotion of Trade**,  
 Education needed, 73; Americans abroad, 73; Foreign languages, 74; Effort for, 76–77; Canada, 79–80; Philadelphia Commercial Museum, 80–81; Trade information, 82; Express companies, 82–83; Banks, 83–84, 88–89; Papers,

- Promotion of Trade—continued  
 87–88; Federal Reserve Act, 89–90; Dollar exchange, 91–92; Foreign investments, 92 et seq.
- Railroads,  
 Canadian, 96–97, 306–07; Bill of lading, 175–76; Transportation different from sea, 200; And steamship bill of lading, 249; To New York, 296
- Railroad–Steamship Lines,  
 Pacific Ocean, 235–36; Canada, 236; Foreign, 236; Development, 237
- "Railway Traffic," 298
- Raleigh, Sir Walter, 14
- Rate Cutting and Rate Wars, 277, 283–84
- Rates, *See* Freight Rates
- Raw Materials,  
 Exports, 5, 9–10; To Germany, 10; British, 300–01  
*See* Exports
- Raw Products Company of New York, *See* Rubber
- Rebates, Deferred, 286
- Reciprocity, 139
- Registered Tonnage, 202
- Reports,  
 Consular, 67; On Commerce, Industry and Agriculture, 71; American Daily Commerce, 71; France and Russia, 72
- Ross, P. H. W., 389
- Rubber, 60–61
- Sailing Ship Owners, International Union of, 275–76
- Sailing Vessels,  
 Decrease in number, 215; Canada, 215n; vs. Steam, 215; In United States, 216; Advantages, 217; Future, 218–19; Usefulness, 218; French subsidies, 275–77
- Sale of Goods Act, British, 151–52
- Sales, Typical Contract of, 156 et seq.
- Salesmen, 103–05; 117
- Samples,  
 Sending, 150–51; "Collectors," 151; Charging for, 151; Must represent goods, 151; British Sale of Goods Act, 151–52
- Schwerin, E. P., 262, 267–68
- Seaboard Brokers, 249–50
- Seamen's Law, 322–23
- Seas, Freedom of the, *See* Freedom of the Seas
- Selling by Mail, *See* Post, Parcel
- Sherman, L. K., 261
- Sherman Anti-Trust Act, 126
- Ship-Brokers, 247
- Ship Purchase Bill, 321–22
- Shipment,  
 Routine of, 178–79; Documents necessary for, 179–80
- Shippers,  
 Objections to combinations, 286; Deferred rebates, 280
- Shipping in United States and Canada, 63–65
- Shipping Bill, 330–32
- Shipping Board, 332–35
- Ships,  
 Measurement, 203 et seq.; Inspection and registration, 207–08; Documents, 208; Clearance, 209–10; Manifest, 211; Classes of merchant, 225; Construction, 225  
*See* Carriers, Ocean  
 "Ships' Option," 205
- Smith, R. J., 244–45
- Societies, Cooperative, of Great Britain, 181
- South American Trade,  
 Regulations, 187; Ship combinations, 279–80  
*See* Foreign Trade
- Speed, Coal Consumption for, 223
- Statistical Abstract of United States, *See* Trade Information
- Steamship Agents, 250
- Steamship Agreements, *See* Combinations, Ship
- Steam Vessels, vs. Sailing, 215
- Suez Canal, 218–14
- Subsidies,  
 Sailing vessels, 275–76; British, 313; in United States, 335–37
- Sugar,  
 Sources, 56–57; Brussels Convention, 57–58  
*See* International Trade
- Supercargo, The, 229
- Sweden, Marking Goods for, 170
- Tariff Rates, *See* Foreign Trade, Co-operation in
- Terminals,  
 New York, 303; American International Terminal Corporation, 304; Kies, W. S., 304
- Tonnage,  
 Definition, 201; Displacement, and deadweight, 201; Registered, 202; Uniformity of measurement, 202–03; Martin, M. M., 203; Moor-

- Tonnage**—continued  
 som System, 203–04; Cubical capacity, 204; Net register, 204; Kinds of tons, 204–06; British vs. American measurements, 205–06; Cargo tons, 205; Long and short tons, 205–06; “Ships’ option,” 205; Metric system, 205; Computing net from gross, 206; Dollar, Captain Robert, 206; Dead weight capacity, 206–07; *Pacific Marine Review*, 206; Load line, 207; Plimsoll Line, 207
- Tons**,  
 Freight charges, 204; Kinds of, 204
- Traffic, Ocean**, Growth of, 238–39
- Trade, Export**, *See Export Trade*
- Trade Information**,  
 Relation, government to foreign trade, 62; Revenues, 62; Shipping, 68; Canada, 64–65, 70; Statistical, 66–67; Publication, 65 et seq.; German, 70–72; Importance, 82
- Trade Policy**,  
 Restricts trade with U. S., 21; Commercial treaties, 21; United Kingdom, 28; Loans, 28; International relations, 25; Resources, 27; Production, 27–28; Forests, 28; Mining, 29
- Trade Publications**, 66–72
- Training Methods**, National City Bank, 79
- Tramp Steamers**,  
 Differ from liners, 220–21; Definition, 221; Operation, 221; Construction, 222; Economy, 222–28; Coal Consumption, 223; Speed, 223; Occupation, 223–24; Cargoes, 223; “Keeping to the beat,” 224; Legal status, 224–25; Transfer, 224–25; Charter ports, 242–43; Charter business, 243–44; Effect on liner rates, 269; No lasting combinations of, 274–75; Examples of combinations, 275–76
- Transportation, Inland**,  
 Method of handling, 174; Railroad bill of lading, 175–76
- Transshipment**,  
 Reasons for, 251; Entrepot, 298–99; London, 298; New York, 299–300
- Treaties**, With British West Indies, France and Italy, 21
- Triangular Voyages**, 266–67
- Underwood, Oscar W.**, 18–14
- United Fruit Company, Steamship Lines of the**, 232–33
- United States**,  
 Economic structure of, 10; Need of trade policy, 11 et seq.; Freedom of the seas, 198; Chamber of Commerce of the, 200–01; Moorsom system, 203–04; Foreign trade statistics, 240; Coal exports, 265–66
- United States, Foreign Policy of the**.  
*See Foreign Policy of the United States*
- United States, Foreign Trade**,  
 New York, 294 et seq.; “Outports,” 296; Transshipment, 299
- United States, Shipping**,  
 Coastwise, 63, 195; Plimsoll Lines, 207; Inspection and registration, 207–08; Clearance papers, 208–10; Sailing vessels, 216; Steamship agreements, 278; Ship combinations, 279; Subsidies, 335–37  
*See Merchant Marine, American*
- United States Steel Corporation, Private Lines of**, 231–33
- Vanderlip, F. A.**, 18–19
- Vessels, Measurements of**, 202–04
- War, European**, *See European War*
- Washington, George**, 1
- Webb Bill**, 16
- Weights and Measures**,  
 Bureau of Standards, 169; Importance, 169; International High Commission, 169; Metric system, 169
- Wheat**,  
 Exports of, 5, 10; Canadian exports, 47; Intensive production, 49; Seasonal character, 50–51; Argentine and United States, 51; Measurement, 205  
*See International Trade*
- Wooden Vessels, Replaced by Iron and Steel**, 219
- World Trade**,  
 Nature of, 36; Growth, 37; Natural resources, 39 et seq.; Coal, 41; Iron ore, 44; Grain, 45; Sugar, 56–57; Coffee, 58–59; Rubber, 60–61
- Young Men’s Christian Association**,  
*See Promotion of Trade*

